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ABSTRACT

Alternative management procedures are recommended that may lower the rate and magnitude of errors in the award of the Basic Educational Opportunity Grants (BEOGs), or Pell Grants. The recommendations are part of the BEOG quality control project and are based on a review of current (1980-1981) levels, distribution, and significance of error in the program and the assessment of the policy context of quality control. Analysis of the levels and kinds of error currently apparent in the program reveals that errors made by students and institutions each account for about one-half of the program error. Only a very small fraction of the total is attributable to the application processors. BEOG error is placed in perspective by considering other similar federal programs. Corrective actions of two kinds are recommended. The first consists of mechanical actions to make marginal changes in the current delivery system. An example of such actions would be requiring stricter academic progress regulations for BEOG recipients. The second consists of major structural changes in the way grants and other federal aid are delivered to students. Recommendations are offered regarding applicant, institution, and processor, problems. The recommendations are related to the role of the Office of Student Financial Assistance and other federal agencies involved in the delivery process. In addition, the decision steps necessary before developing a structural redesign of the federal aid delivery system are addressed, along with potential outcomes of a redesign effort. A sample Basic Grant application form for 1980-1981 is included. (SW)

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QUALITY IN THE BASIC GRANT DELIVERY SYSTEM

Volume 2
Corrective Actions

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SUMMARY

This report addresses the substantial net overaward[1] currently found in the Basic Educational Opportunity Grant [BEOG] delivery system. It follows in its organization the logical sequence of the QC study itself: assessment of the policy context of quality control (Chapter 1); review of current levels, distribution, and significance of error in the program (Chapter 2); presentation and discussion of recommendations for corrective actions that are small in scope (Chapters 3, 4, 5, and 6); and discussion of decision approaches and possible outcomes for major structural changes in the delivery system for Federal student aid (Chapter 7).

Chapter 1 introduces each of these topics in detail, suggesting that as the scope and effects on program intent of corrective actions grow, so does the need that they be formulated and analyzed only in the context of a highly detailed statement of Federal policy considerations. A structure and a process for arriving at such a statement are presented.

Chapter 2 discusses the levels and kinds of error currently apparent in the program, stressing that errors made by students and institutions each account for about one-half of program error. Only a very small fraction of the total is attributable to the application processors. The chapter puts BEOG error in

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[1]See Volume 1.

perspective through a contrast with other similar Federal programs. Comparative analysis suggests that current error levels are indeed large, but not out of line with levels in other programs in their earlier stages. The analysis also suggests that BEOG error can be significantly reduced through the introduction of a comprehensive quality control [QC] program.

Following the introductory and error overview chapters is the heart of the report: its corrective actions recommendations. The report recommends corrective actions of two kinds. The first consists of mechanical actions to make marginal changes in the current delivery system. An example of such actions would be requiring stricter academic progress regulations for Basic Grant recipients. The second consists of major structural changes in the way grants and other Federal aid are delivered to students. An example of this would be dropping the Multiple Data Entry [MDE] processing system for Basic Grants in favor of one central processor for all Federal need and eligibility calculations. Whereas the mechanical approach aims to control on an ongoing basis the error levels within the current delivery system, the structural approach aims to eliminate certain persistent errors by more radical means.

Chapters 3, 4, and 5 present our mechanical recommendations regarding the three non-Federal components of Basic Grant delivery: applicants, institutions, and processors, respectively. Each of these component-specific, mechanical actions chapters follows a set format:

1. Problem identification

2. Broad themes for solutions

3. Corrective actions recommendations

4. Implications of the recommended corrective actions, including costs, benefits, timing for implementation, and new regulatory and legislative requirements

The major problems identified in the applicant and applications component (Chapter 3) are:

- The ability of applicants to distort their financial data (intentionally or otherwise) and not get checked by the system
- The provisions for using estimated data
- The imprecision with which certain data are defined
- The inappropriateness of particular time frames
- The apparent lack of follow-up by the Department of Education [ED] on suspected erroneous applications

We conclude that these application problems may be addressed by three central themes:

- Asking the applicant to prove need
- Improving the identification and validation of likely erroneous applications
- Making the application form itself less error prone

In turn, we propose a set of seven action recommendations to address these themes:

- Issue a valid Student Eligibility Report [SER] only when an IRS 1040 or a certification of public assistance accompanies the application or alternatively only when a signed release for IRS data match accompanies the application.
- Continue ED mandated validation but use the selection criteria developed in Stage One.

- Publicize to students the validation activity and its possible consequences.
- Establish one individual at each regional office to be responsible for following up on each institutional referral from that region.
- Change the definition of dependency status to exclude current year estimates.
- Ask for the names of dependents who will be enrolled in postsecondary education institutions during the award year.
- Improve the definition of various items on the application form.

In the institutional category (Chapter 4), the problem areas we have detected through Stage One preliminary findings are:

- Enrollment status changes
- Differences between actual disbursements and expected disbursements
- Delays due to collection and signing of SERs
- The time-consuming SER corrections process
- Changes in dependency status

These problems in the institutional component may be addressed by three central themes:

- Creating an incentive in the BEOG program for students to complete course work
- Changing administrative procedures to promote program compliance and reduce delay
- Adding new verification requirements for critical BEOG application items

To address these problems more concretely, we propose the following six corrective actions:

- Introduce a program-wide minimum credit requirement policy in place of satisfactory progress policies designed by institutions.
- Restructure the BEOG payment schedule to broaden BEOG cost of attendance and dollar award categories.
- Have institutions complete a mid-year student validation roster in addition to the one required at the end of the award year for reconciliation of BEOG disbursements.
- Allow FAOs to recalculate Student Eligibility Indexes [SEIs] based on corrected data and make first disbursements to students while waiting for receipt of the corrected SERs from the processor.
- Specify a new edit for the BEOG processor edit system that will trigger a validation flag if students show dependency status change between years.
- Require that eligible BEOG recipients, until the time of the first BEOG disbursement, correct SER data regarding household size and the number in college to reflect their actual situations.

In the processors component (Chapter 5), we found no major causes of award error. We have identified, however, six minor or potential problem areas where improvements could be made:

- Delays in the receipt of an SER
- Imperfect control of production quality
- Duplication of effort
- Excessive costs
- Inadequate control of applicant error, fraud, and abuse
- Inadequate reporting for management decision-making

These problems fit into three major corrective actions themes for processors:

- Rationalizing internal processing procedures
- Improving management decision-making tools

- Improving the efficiency of communications with students

We propose 13 specific recommendations to meet the potential problem areas just discussed:

- Serialize each individual BEOG application at the mail receipt stage.
- Evaluate alternative procedures for linking school identification and application processing.
- Increase the security procedures for handling transfer of data between sites.
- Precisely specify quality control requirements in the central processing contract.
- Dedicate more ED staff time to on-site monitoring of the central and MDE processors.
- Tighten MDE pre-edits.
- Justify in detail the need at ED for each processor report currently required by contract.
- Establish at ED an on-line monthly applicant sample data base.
- Use more appropriate and more clearly defined error calculations in regular central processor reports to ED.
- Include in all regular processor reports to ED a clearly understood "system-alarm" capability.
- Utilize at ED the summary correspondence data being newly produced at the central processor.
- Implement systematic quantitative criteria for the initiation, evaluation, and maintenance of each compute edit and validation criterion.
- Systematically assess student satisfaction with processing.

Chapter 6 ties the mechanical recommendations together into a whole, taking into account the ramifications of changes in one

component for activities in each of the other components, if any. For example, the system-wide implications of requiring that applicants prove need by providing IRS or welfare forms with their BEOG applications are considered. Chapter 6 also relates the various recommendations to the role of the Office of Student Financial Assistance [OSFA] and other Federal agencies involved in the delivery process.

Chapter 7 introduces the structural approach for radical system change. Based on the hypothesis that there is a certain level of error endemic to the current delivery system (i.e., error that cannot be controlled by mechanical corrective actions alone), this chapter explores the decision procedures necessary before developing a structural redesign of the entire Federal aid delivery system and presents some potential outcomes of that redesign effort. The chapter stresses that in delivery system redesign analysis it is imperative to undertake systematic exploration of OSFA's policy preferences, constraints, and assumptions prior to full-scale development of alternative delivery methods.

CHAPTER 1

INTRODUCTION

Total net overaward error in the Basic Educational Opportunity Grant [BEOG] Program in 1980-81 was approximately $400 million.[1] Errors made by applicants accounted for somewhat over one-half of this amount. Errors made by institutions accounted for nearly another half. Errors made by processors, the remaining component of student aid delivery, accounted for the small proportion of award errors remaining. This report suggests appropriate ways for ED management to assess the significance and meaning of those error patterns and to pursue potential remedies.

1.1 THE OVERALL POLICY CONTEXT OF QUALITY CONTROL

The model that underpins the entire QC project can be characterized by a sequential set of policy questions that begins with specific errors and leads ultimately to consideration of major system redesign. These questions are:

- Where does current program performance deviate from program intent? (This error is usually stated in terms of deviations from optimal program performance or from preset standards of performance.)
- How educationally and politically important are the level and distribution of current program error?

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[1]Unless otherwise noted, error data in this volume include errors made by institutions in requiring file copies of statements of educational purpose and financial aid transcripts. Without these errors, net overward error was approximately $250 million. See Volume 1 for details of all the error data discussed in this volume.

- What appropriate corrective actions can be identified that might lower error without causing major changes in the structure of the program?
- What are the likely effects of implementing such corrective actions? What error is likely to remain?
- How educationally and politically important are the level and distribution of remaining error?
- What major structural changes can be made to lower significantly the level and distribution of program error?
- How can such changes be organized and integrated into a political decision model that identifies classes of feasible alternatives, major differences among them, and the likely effects of implementing one set of changes rather than another?

While providing definitive answers to all of these questions is beyond the scope of this project, they nevertheless accurately reflect the major concerns of Federal financial aid quality control and thus the internal logic of the project.

1.2 DEFINING THE SCOPE OF CORRECTIVE ACTIONS ANALYSIS WITHIN THE OVERALL POLICY CONTEXT OF QUALITY CONTROL

The scope of the quality control project's corrective actions analysis can best be described by examining the extent to which it will provide answers to the questions listed above:

- Errors will be identified, measured, and compared to previous levels when possible.
- A framework will be developed for examining the educational and political importance of current error rates.
- Appropriate corrective actions that do not compromise program intent or goals and show promise of reducing program error will be identified.
- Informed judgments will be made about the likely effects of corrective actions and the level and distribution of residual error.

- The framework referred to in the second point just given will be applied to best estimates of residual error in order to allow an assessment of the desirability and necessity of proceeding with major, structural changes.
- A model for generating alternative system structures based on different specifications of intent will be developed.
- A decision model will be created to simulate the choice among competing delivery systems for use in policy discussions.

Thus, the corrective actions analysis employs a broad range of very different methodologies to produce a set of useful interrelated products for Federal policy purposes.

1.3 DIFFERENTIATING AMONG TYPES OF CORRECTIVE ACTIONS

The previous discussion suggests that there are two major approaches to corrective actions for quality control in the Basic Grant system. The first consists of mechanical actions to make marginal changes in the current delivery system. Examples of such actions would be dropping certain minor, unnecessary items from the BEOG application form or requiring stricter academic progress regulations for Basic Grant recipients. The second consists of major structural changes in the way grants and other Federal aid are delivered to students. An example of this would be dropping both the Multiple Data Entry [MDE] processing system for Basic Grants and the private needs analysis processing systems for other aid in favor of one central processor for all need and eligibility calculations. Whereas the mechanical approach aims to control on an ongoing basis the error levels within the

current delivery system, the structural approach aims to eliminate certain persistent, endemic errors by more radical means.

Prior to the presentation of these approaches in detail in the chapters that follow, two points should be stressed. First, the distinction between mechanical and structural changes is one of scope. It is not necessarily one of effect on Federal aid program intent. In other words, there are relatively easy ways to accomplish changes in the delivery system which could have major influences on the effectiveness of the Federal program in meeting its objectives (access, entitlement, simplicity, etc.), just as major structural changes might conceivably have only minor effects on program intent. Second, the distinction between the mechanical and structural approaches is not simply one of timing. Not all mechanical actions can be accomplished in the short term (up to two years), and not all structural changes require two or more years before implementing. In general, however, the mechanical actions do take place in the shorter term and have less effect on program intent than the structural changes.

Besides the structural, program intent, and timing dimensions, there are other ways of distinguishing among corrective actions. One is the type of management action required--legislative, regulatory, or administrative modification. Yet another is the relative political feasibility of the proposed corrective action. Finally, to the extent that more than one corrective action is identified to lower a particular error, differences in

the likelihood of lowering that error through each approach can be identified.

1.4 ORGANIZATION OF THE REPORT

This report addresses elements of all the corrective action distinctions noted but focuses in particular on the distinction between the mechanical and structural approaches to corrective actions. Chapters 3, 4, and 5 present our mechanical recommendations regarding the three non-Federal components of Basic Grant delivery: applicants, institutions, and processors, respectively. Each of these component-specific mechanical actions chapters follows a set format:

1. Problem identification
2. Broad themes for solutions
3. Corrective actions recommendations
4. Consideration of implications of the recommended corrective actions, including costs, benefits, timing for implementation, and new regulatory and legislative requirements

The calculation of costs and benefits for the various actions forms a significant part of the report. An attempt is made to attach quantitative outcome data to each of the recommendations to guide OSFA decisions. For example, on the basis of the $95 per recipient in residual net overaward error among already validated students due to errors those students made in filling out the application, we estimate that our recommendation calling for more in-depth validation could save nearly that amount in total grant outlays (see Chapter 3). While the

performance of government social service programs like those of OSFA should not be assessed strictly on the basis of quantitative cost and benefit calculations alone, owing to the difficulty of placing social, private sector, and government costs and benefits on defensibly comparable quantitative scales, the pursuit of such data is useful for virtually any organization, regardless of its structure and goals. The magnitude of the award error in the BEOG program (see Volume 1) and the current pressures for Federal budget reductions make the presentation of such information along with the various recommendations of Chapters 3, 4, and 5 especially valuable in this quality control project.

Chapter 6 ties the mechanical recommendations together into a whole by considering the ramifications of changes in one component on each of the other components, if any. For example, it considers the system-wide implications of requiring that applicants prove need by providing IRS or welfare forms with their BEOG applications. Chapter 6 also relates the various recommendations to the role of the Office of Student Financial Assistance [OSFA] and other Federal agencies involved in the delivery process.

Chapter 6 is useful because Advanced Technology decided after lengthy debate not to present in this report a single "package" of corrective actions in which the success of each proposed action supports and is dependent upon the other actions in the package. A coordinated program of actions should undeniably form the basis of the eventual ED error-fighting strategy,

but for this preliminary advisory report the issue is more complex. Should one element of our coordinated program of recommended actions be ruled unacceptable by OSFA, the others would then need to be changed, perhaps in major ways. We decided to avoid that "house of cards" scenario in favor of presenting a series of recommendations that can stand by themselves as effective responses to the pressing error problems we identify in the Basic Grant delivery system.

Chapter 7 takes the structural approach. It is based on the assumption that there is a certain level of error endemic to the current delivery system (i.e., error that cannot be controlled by mechanical corrective actions alone) and that this level of error is unacceptable to Federal policymakers. The chapter explores the decision procedures necessary before developing a structural redesign of the entire Federal student aid delivery system and discusses some potential outcomes of that redesign effort.

In summary, the corrective actions report is organized to reflect the sequence of questions with which this chapter began:

- How much error is there, where is it concentrated, and how important is it? (Chapter 2)
- What nonstructural corrective actions can be proposed to lower errors identified as unacceptable, and how much error will remain? (Chapters 3, 4, 5, and 6)
- How significant is the level of error remaining, should policymakers go about lowering that error through major structural change, and if so, how? (Chapter 7)

CHAPTER 2

THE LEVEL, DISTRIBUTION, AND TYPES OF ERROR IN THE BASIC GRANT PROGRAM

The Quality Control project study of error in the Basic Grant program in the 1980-81 academic year suggests widespread program error. Verified data collected from students, parents, the Internal Revenue Service, tax assessors, bank records, and educational institution records indicate that 71 percent of all grant disbursements were in error by a net average of $239 per recipient with error. This striking finding is reinforced by a series of other findings regarding the level of error in Basic Grant delivery:

- Program error, that is, the absolute value of all underaward and overaward error, totals $681 million.
- Fifty percent of BEOG recipients received overawards, compared to 21 percent receiving underawards. Only 29 percent of recipients received correct awards.
- Net disbursements to students include overawards of $526 million and underawards of $124 million, for a total of $402 million in net disbursement error.
- BEOG validation elicits significant changes in student SEIs, and validated students are indeed more error prone than other eligible students, but some error remains among them after validation.
- Total error figures indicate a larger number of students receiving incorrect awards than was reported in the similar 1978-79 study, and there are more student errors resulting in more overawards and fewer students receiving underawards.

The question that follows naturally from these results[1] regards the causes of these errors. Are they largely due to students' carelessness, to outright fraud, to institutional abuses, to unclear application instructions, or to other causes? The following discussion highlights our preliminary thinking and research on the causes of the errors. We approach the subject by addressing the distribution of errors among applicants, processors, and instutitions and the types of errors occurring at these different components of the Basic Grant delivery system. We cannot always identify "causes" in the strictest sense using this approach,[2] but the inferences about causes we do draw from these data in this chapter are backed up by our formal and informal interviews with students, parents, Financial Aid Officers [FAOs], Federal officials, and other knowledgeable sources.

The processor component of the delivery system appears not to be a major contributor to Basic Grant award error. Advanced Technology's preliminary quantitative analysis has focused on two areas of high error potential within the processor: data entry and SEI calculation. We have found that data entry errors occur

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[1]The figures presented in this chapter must be used very carefully. A large number of qualifications and definitions accompanies them. These details may be found in other recent reports from the Quality Control project, plus Volumes 1 and 3 of this report.

[2]Only a more experimentally focused study could make near definitive statements about causes for many of the errors we have encountered. For example, is an income figure not corresponding to reported IRS data caused by fraud or carelessness? The answer is beyond the scope of this study.

on approximately 3 percent of all applications originating at MDE sites, but none of the errors we have found in examining 1,250 forms has been sizable enough to significantly affect the student's award (see Volume 1). In addition, we have found no errors in the central processor's calculations of the Student Eligibility Indexes [SEIs] for the over 4,000 students in our sample. As suggested in Chapter 5, however, there is still room for improvement in processor operations.

The other two non-Federal components of program error are the institutions and the students. Institutional error consists of problems in determining a student's eligibility to receive a grant based on program regulations and problems stemming from inaccurate or untimely institutional record keeping and disbursement procedures. Student error consists of applicants providing incorrect data for the SEI. The relative size of institutional and student errors is a matter of debate, owing to definitional issues, but there is little question that the greatest single source of program error in absolute or net dollar terms is student error in reporting the data used to calculate the SEI.

As Figure 2-1[1] shows, student error occurred in 38 percent of all recipient cases. Our research reveals incorrect family income figures cause most of the problems, followed by incorrect student income figures. The absolute mean error (both negative and positive) made by students is $355. Institutional

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[1]The figure is taken from Volume 1.

	RECIPIENTS WITH ERROR	PERCENT OF ALL RECIPIENTS	MEAN ABSOLUTE ERROR FOR RECIPIENTS WITH ERROR
Student [SEI] Error	897,000	38%	$355
Student Error Not Counting AEP/FAT Error[1]	968,000	41%	$364
Total Institution Error	991,000	42%	$366
Institution Error Not Counting AEP/FAT Error	873,000	37%	$241
Components[2]			
AEP/FAT Error	181,000	7.7%	$933
BA and Citizenship Error	4,000	.2%	$849
Program Eligibility Error	31,000	1.3%	$789
Enrollment Status Error[3]	430,000	18.2%	$219
Calculation Error[3]	368,000	15.6%	$ 79
Cost of Attendance Error	354,000	15.0%	$177

[1]When AEP/FAT error by institution is not counted as disbursement error, student error grows in frequency and magnitude as a factor in overall disbursement error. This is because errors that were smaller than AEP/FAT in cases with AEP/FAT error become significant and are counted once AEP/FAT error is ignored. Such errors were subsumed by AEP/FAT error in the original calculations.

[2]Component figures are computed independently for each type of error. The sum therefore exceeds the total of all error, because error has been counted more than once in all cases where more than one type of error occurs.

[3]Estimated breakdown of institutional error components using spring 1981 data. Final component figures will be derived from institutional reconciliation rosters as part of Stage Two of this project.

FIGURE 2-1

STUDENT AND INSTITUTION ERRORS IN BASIC GRANT DISBURSEMENTS

error occurred in 42 percent of all cases (slightly more cases than student error) but is made up of the 6 distinct components of error listed in Figure 2-1.

Two forms of error--monitoring students' citizenship and bachelor's degree status and monitoring eligibility for award as specified by Federal program regulations--occurred in a very small percentage of cases. However, AEP/FAT error, a technical error which consists of institutions failing to have the required Affidavit of Educational Purpose or Financial Aid Transcript on file for a recipient of BEOG funds, contributed significantly to institutional error. The total incidence of institutional error is 42 percent with AEP/FAT error included, but it drops to 37 percent, with an absolute mean error of $241 (as opposed to $366), when AEP/FAT error is not taken into account.

Only a small portion of the 37 percent institutional error is due to categorical or eligibility errors. The majority of institutional error is due to incorrect monitoring of enrollment status or cost of attendance and to calculation error (a variety of bookkeeping and disbursement discrepancies). It is difficult to measure the independent effects of each of these types of error from spring SER data since many institutions fail to indicate status changes on the SER. In Figure 2-1 we show the estimated breakdown of institutional error components. In Stage Two of this project, we will use institutional reconciliation roster data to derive a more accurate component breakdown.

In summary, the proportional breakdown of program error clearly reveals that students and institutions each play major roles in overall program error. The remainder of this chapter addresses the question of the significance of this error in a broader context. The remainder of the volume presents proposals for resolving the error via effective OSFA corrective actions.

Basic Grant Error in Broader Perspective

One of the most effective ways of assessing a program's performance is through a comparison with other similar programs. Several critical questions can be answered this way. Does the BEOG program have an inordinate amount of error compared to other Federal programs delivering funding to individuals on the basis of eligibility criteria? Does the quality control experience of other agencies suggest Basic Grant errors can be significantly reduced once a full-fledged BEOG QC system is in operation?

Advanced Technology identified five Federal programs that bear enough similarities to the Basic Grant program to provide benchmark error data for answering these kinds of questions:

- Aid to Families of Dependent Children [AFDC]
- National School Lunch Program [NSLP]
- Food Stamps [FS]
- Supplemental Security Income [SSI]
- Veterans' Educational Assistance Program [VEAP]

With the exception of VEAP, all are entitlement programs that require the applicant to prove need. VEAP, while not need-based, does require applicants to meet certain criteria similar to those

for the Basic Grant program, such as requiring attendance at a certified school and basing the amount of the benefit on type of attendance (e.g., full-time or part-time). In addition, with the exception of NSLP, each of the programs has an ongoing, well-established quality control process.

As part of an examination of these programs, Advanced Technology performed three activities:

- Literature Review - consisting of an analysis of each program's manuals and other documentation, as well as pertinent Office of Management and Budget [OMB] and General Accounting Office [GAO] reports
- Interviews - conducted with officials from each of the programs
- A One-Day Conference - held in a workshop format, and consisting of a review of error rates as well as corrective actions strategies in the various programs[1]

In each of the five programs we reviewed, a comprehensive assessment of program error rates was undertaken at some point within five years after program inception. An analysis of these early error rates is useful in placing the Basic Grant error rates in perspective. Four of the programs (AFDC, FS, SSI, and VEAP) reported that their error rates prior to the implementation of an ongoing quality control program were in the 40-50 percent range. In other words, the absolute dollar error rate (over-

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[1]An account of the first two activities is included in the "Basic Grant Quality Control System Planning Document" (Advanced Technology, April 1981). Highlights of the last activity are contained in the "Quality Control Conference Summary" (Advanced Technology, June 1981).

awards and underawards totaled as if both were positive dollar figures) comprised nearly half of total program dollar outlays to clients. The comparable 1980-81 figure for the Basic Grant program is approximately 30 percent ($681 million out of over $2 billion in grant awards). Thus, the BEOG program is not currently as error laden as other social programs have been in the past.

Each of the programs except NSLP instituted ongoing comprehensive quality control programs around 1970. As can be seen in Figure 2-2, which provides an overview of the various programs, each of those four has since experienced a significant drop in error rates. Officials in the AFDC, FS, NSLP, and SSI programs indicated that their current error rates are probably as low as can be expected, given the current level of resources available for their quality control programs. Both VEAP and GAO reports indicate that the VEAP error rate could be decreased by more efficient QC efforts at only marginal additional cost.

Program officials for the various programs stressed that three critical external factors can affect error rates in a positive or negative manner, even after a quality control system is in place:

- Experimental Effects - In some programs, the announcement of a quality control system being implemented had the effect of decreasing error rates. Conversely, publicized actions or penalties which are not carried out can result in increased error rates due to a perceived weakness in the system.

PROGRAM	ERROR RATE IN PERCENT[1]	YEARS OF INFORMATION	PROGRAM SIZE	HUMAN INTERACTION w/APPLICANT	PREAWARD VALIDATION	POSTAWARD VALIDATION	DOCUMENTATION REQUIREMENT
1. Aid to Families with Dependent Children	13% overaward in dollars	1979	$10.2 Billion	Varied	Yes	Yes (sample)	Yes, with Application
2. Veterans Administration	17% overaward in dollars	1977	$ 3.9 Billion	None	Yes	Yes (sample)	Yes, with Application
3. Foodstamps	12% absolute error in dollars	1979	$ 5.0 Billion	Varied	Yes	Yes (sample)	Yes, with Application
4. School Lunch	8% absolute error in dollars	1980	$ 2.3 Billion	None	No	No	No
5. Supplemental Security Income [SSI]	7% absolute error in dollars	1976-78	$ 7.9 Billion	Varied	Yes	Yes (sample)	Yes, with Application
6. Basic Grants	30% absolute error in dollars	1981	$ 2.4 Billion	Varied	Yes (sample)	No	No

[1]Error tolerance for AFDC, Foodstamps, and SSI is $5. Award amounts for School Lunch are fixed as (1) free lunch; (2) reduced cost; and (3) not eligible. Award amounts for VA are fixed as (1) full-time; (2) part-time; and (3) ineligible. Ongoing QC was initiated in AFDC in 1968; SSI and Foodstamps in 1969; and VA in 1970.

FIGURE 2-2

ERROR RATES IN SIX FEDERAL PROGRAMS

- Form or Data Changes - In some instances program error has decreased or increased due to changes in the application form which affects the data being collected. For example, the removal of a data element that has resulted in error due to its ambiguous nature would cause the error associated with that element to decrease.

- Program Changes - The addition or removal of a segment of a program's constituency has had effects on error rates. For example, if a program's threshold is lowered so that fewer middle-class individuals can participate, errors associated with that particular segment of the population could disappear.

These kinds of effects can occur regardless of whether a true QC system is installed, so comparisons of error rates across programs or over time is a very dangerous enterprise. Nevertheless, the error patterns we uncovered strongly suggest to us that BEOG error patterns can be significantly reduced and are in fact not so extraordinarily high as an initial assessment of Volume 1 and Figure 2-1 of this chapter might suggest.

Many officials involved in entitlement programs have speculated on the question of whether assisting clients in their preparation of a program application would help reduce error. Because of the varied levels of interactions with caseworkers, and other problems, however, it is difficult to obtain reliable information on the benefits of assistance in such programs as AFDC and FS. In Chapter 3 of Volume 1 of this report, an examination of the benefits of assistance in the BEOG program is presented which suggests that assistance provides some reduction in applicant errors. This QC project, however, was not designed to provide a definitive answer to the question.

There is one Federal program which has studied the issue in greater detail. Like the BEOG program, it deals in self-reported financial information and allows the reporting person a choice as to whether or not to seek assistance. The Internal Revenue Service individual income tax filing procedure cuts across all socioeconomic sectors and involves data elements very similar to those in the BEOG program. For a number of years, the IRS has compiled statistics on the relationship between computational errors and levels and types of assistance in form preparation. Figure 2-3 details the preliminary error figures for the 1980 tax year. As can be seen, with the exception of volunteer help with the 1040A form, there is a slightly, but significantly, lower level of computational error for individuals who received assistance. These results parallel the findings of Volume 1, where slightly lower error rates were found among assisted applicants.

One problem with comparing overall IRS data to BEOG data is the difference in populations: one heterogeneous and one largely lower and lower-middle income families. We therefore obtained data for the assistance-seeking behavior of lower-income tax filers (defined as those with incomes under $10,000) from IRS. These filers were far more likely to seek assistance (66 percent did so, versus 50 percent overall) than other tax filers. They also were significantly more likely to seek volunteer assistance from a relative, friend, or nonprofit organization. Although no data on error patterns among lower-income families are available,

FILING STATUS[1]	% OF ALL FILERS	% WITH ERRORS: 1040 FILERS	% WITH ERRORS: 1040 A FILERS
Unassisted Filers	50	11.8	7.5
Assisted Filers	50	5.1	3.4
IRS Assisted[2]	(5)	(5.3)	(2.6)
Volunteer Assisted[3]	(1)	(8.4)	(8.0)
Commercially Assisted	(44)	(5.0)	(3.4)
All Filers	100	8.4	5.4

[1]Preliminary data for the 1980 tax year. Base is all individual income tax filers.

[2]Of those assisted by IRS, 75 percent are assisted by telephone and 25 percent in person.

[3]Relative, friend, or nonprofit organization.

FIGURE 2-3

IRS COMPUTATIONAL ERROR RATES FOR
ASSISTED AND UNASSISTED TAX FILERS

one might logically hypothesize that assistance has less significant effects overall for this group due to their strong reliance on volunteer assistance, the least helpful of the three sources IRS surveyed.

CHAPTER 3

APPLICANT AND APPLICATION RECOMMENDATIONS

In this chapter we discuss our findings from Stage One as they relate to problems that occur in applying for Basic Grants. The purpose is to identify the causes of these problems and to recommend management corrective actions that can be applied without restructuring the delivery system for Basic Grants or its eligibility formula. We maintain that such structural redesign is ultimately necessary to satisfactorily deal with the problems of error, fraud, and abuse relating to the application process. However, steps can be taken in the meantime to help alleviate the problem.

Section 3.1 presents a discussion of the problems we have identified and ways of obtaining solutions. In Section 3.2 we present recommended solutions corresponding to three themes for corrective actions resulting from our examination of the problems. Finally, in Section 3.3 we discuss the implications of the recommended corrective actions in terms of expected costs, benefits, and timing considerations.

3.1 THE PROBLEMS

The primary cause of erroneous awards in the Basic Grant program is incorrect information submitted by the applicant. This conclusion was first demonstrated in the 1978-79 Basic Grant Quality Control Study where a large proportion of misaward was associated with inaccurate application data and reinforced by the results of Stage One of the 1980-81 project which showed that as

much as $352 million in grant error was caused by application error. Thus, management corrective actions aimed at program misaward must strongly emphasize the application process.

We have identified five major factors responsible for the high level of application error:

- The ability of applicants to distort their financial data (intentionally or otherwise) and not get checked by the system
- The provisions for using estimated data
- The imprecision with which certain data are defined
- The inappropriateness of particular time frames
- The apparent lack of follow-up by the Department of Education on suspected erroneous applications

3.1.1 Distortion of Actual Financial Data

Stage One analysis showed a ratio of application related overawards to underawards of over five to one. One would suspect therefore that not all error in the application form is due to chance but that there is purposeful distortion of application data in favor of the recipient. In the present delivery system, there is very little to prevent an applicant from cheating the system. As a result, there is also very little to prevent unintentional errors as well.

This will continue to be true regardless of any type of validation using error-prone profiling or any type of edits we can conceive of. This is so because if we are to permit the truly needy to be processed through the system without being checked and if we use only application data to determine who is truly needy, then anyone, regardless of wealth, who files an

application resembling the application of a truly needy student will be processed through the system without being checked.

Consider, for example, an application such as that of Figure 3-1. It is for a lower-middle income family of five with two in college, a home, and no unusual expenses. The Basic Grant program is intended for such a family, and we would like this application to go through the system with minimum disturbance. It violates no edits, generates no flags for validation, and raises no eyebrows. This is as it should be <u>if</u> the information about the family is accurate. The problem is, anyone, regardless of wealth, could have filed this application and obtained Basic Grant eligibility.

Thus, an applicant just has to <u>look needy, not prove need</u>, to become eligible for a Basic Grant. We believe this is a major structural flaw that can only be fully corrected with a redesign of the Basic Grant delivery system (such as those proposed in Chapter 7).

Short of redesign, there are three steps that can be taken to address the problem to some extent in the near term. In Section 3.2 we will recommend:

- Issuing a valid SER only when an IRS 1040 or a certification of public assistance accompanies the application or, alternatively, only when a signed release for IRS data match accompanies the application
- Modifying the validation criteria to reflect Stage One error-prone analysis
- Publicizing the validation activity and its possible consequences

Basic Grant Application Form

1980-81

FORM APPROVED FEDAC NO. A 34 APP EXP: 11 81

No grant may be awarded unless a completed application form has been received (20 U.S.C. 1070a (a) (2)).

WARNING

If you use this form to establish your eligibility for federal student aid funds, you should know that any person who makes false statements or misrepresentations on this form is subject to a fine or to imprisonment or both, under provisions of the United States Criminal Code.

Read instructions carefully as you fill out this form.

Section A Student's Information

1. Student's name — Last: DOE; First: JOHN; MI: A

2. Student's permanent mailing address (see State Code List, page 4) — Number and Street: 1234 MAIN ST; City: WASHINGTON; State Code: DC; Zip Code: 20202

3. Student's social security number: 012-23-4567

4. Student's date of birth: Month 01; Day 21; Year 57

5. Student's State of legal residence: DC (State Code)

6. The student is: (a) ☒ a U.S. citizen; (b) ☐ an eligible noncitizen (see instructions); (c) ☐ neither of the above (see instructions)

7. The student is: ☒ unmarried ☐ married ☐ separated

8. Student's year in college during 1980-81: ☒ 1st (freshman) ☐ 2nd (sophomore) ☐ 3rd (junior) ☐ 4th (senior) ☐ 5th (undergraduate) ☐ graduate or professional (beyond a Bachelor's degree)

9. Will the student have received a Bachelor's degree by July 1, 1980? ☐ Yes (see instructions) ☒ No

10. During the 1980-81 school year the student wants financial aid from Month 07 Year 80 to Month 06 Year 81

Section B Student's Status

Read the instructions to find out who counts as the student's parent before you answer 11, 12, and 13.

	Yes	No	Yes	No
11. Did or will the student live with the parents for more than six weeks	in 1979? ☒	☐	in 1980? ☒	☐
12. Did or will the parents claim the student as an income tax exemption	in 1979? ☒	☐	in 1980? ☒	☐
13. Did or will the student receive more than $750 worth of support from the parents	in 1979? ☒	☐	in 1980? ☒	☐

If you answered "Yes" to any of the questions in Section B, you must fill in the green shaded answers.

If you answered "No" to all 6 questions in Section B, you must fill in the gray shaded answers.

Section C Household Information

Parents

If the student has a stepparent, read the instructions before going on.

14. The parents' current marital status is: ☐ single ☐ divorced ☐ widowed ☒ married ☐ separated

15. The age of the older parent is 55

16. The parents' State of legal residence is DC (State Code)

17. The total size of the parents' household during 1980-81 will be 05 (Include the student, parents, and parents' other dependent children. Include other dependents if they meet the definition in the instructions.)

18. Of the number in 17, how many will be in college during 1980-81? 2 (Include persons who will be enrolled in college at least half-time.)

Student (and Spouse)

19. The total size of the student's household during 1980-81 will be ___ (Include the student, spouse, and student's dependent children. Include other dependents if they meet the definition in the instructions.)

20. Of the number in 19, how many will be in college during 1980-81? ___ (Include persons who will be enrolled in college at least half-time.)

Section D Income and Expense Information

	Parents	Student and Spouse
21. A 1979 U.S. income tax return has been filed or will be filed	☒ Yes ☐ No	☐ Yes ☐ No
If you answered "Yes" to 21, go to 22. If you answered "No" to 21, skip to 28.		
22. The 1979 U.S. income tax return figures are (see instructions)	☒ from a completed return ☐ estimated	☐ from a completed return ☐ estimated
23. 1979 total number of exemptions claimed (Form 1040, line 7 or 1040A, line 6)	05	
24. 1979 adjusted gross income (Form 1040, line 31 or 1040A, line 11)	$ 10,000.00	$ .00
25. 1979 total U.S. income tax paid (Form 1040, line 47 or 1040A, line 14a)	$ 220.00	$ .00
26. 1979 total itemized deductions (Form 1040, Schedule A, line 39, or write "0" if deductions were not itemized)	$ 0.00	$ .00
27. Expected 1980 adjusted gross income (see instructions)	$ 11,000.00	Skip to 28

OE FORM 255

Section D (continued on other side)

FIGURE 3-1
EXAMPLE STUDENT BASIC GRANT APPLICATION FORM

Section D (Continued)

	Parents	Student and Spouse
28. 1979 income earned from work by	a. Father $ 10 000 .00	a. Student $ .00
	b. Mother $ .00	b. Spouse $ .00
29. 1979 nontaxable income		
a. Social security benefits (see instructions)	$ 0 .00	$ .00
b. Other nontaxable income (child support, welfare, etc.—see instructions)	$ 0 .00	$ .00
30. 1979 medical and dental expenses not paid by insurance	$ .00	$ .00
31. 1979 elementary, junior high, and high school tuition paid (Do not include tuition paid for the student.)	$ 0 .00	$ .00
32. Expected 1980 nontaxable income (see instructions)		
a. Social security benefits	$ 0 .00	Skip to 34
b. Other nontaxable income (child support, welfare, etc.)	$ 0 .00	
33. Student's (and spouse's) total 1979 income minus U.S. income tax paid (see instructions)	$ 500 .00	

Section E Asset Information

	Parents		Student and Spouse	
	What is it worth now?	What is owed on it?	What is it worth now?	What is owed on it?
34. Cash, savings, and checking accounts	$ 400.00		$ .00	
35. Home	$ 50,000.00	$ 30,000 .00	$ .00	$ .00
36. Other real estate and investments	$ 0 .00	$ 0 .00	$ .00	$ .00
37. Business and farm	$ 0 .00	$ 0 .00	$ .00	$ .00
38. Student's (and spouse's) savings and net assets	$ 100 .00		Skip to 39	

Fold

All students must fill out Sections F and G.

Section F Student's (and Spouse's) Expected Income

July 1, 1980—June 30, 1981

39. Social security benefits (Include only the student's benefits.)	Amount per month $ 0.00	Number of months
40. Veterans educational benefits (Include only the student's benefits from GI Bill and Veterans or Dependents Educational Assistance Programs.)	Amount per month $ 0.00	Number of months
41. Other nontaxable income of student (and spouse) (Do not include student aid.)	Amount for year $ 0.00	

	Summer 1980	1980-81 School Year
42. a. Student's taxable income (Do not include student aid.)	3 months $ 0 .00	9 months $ 0 .00
b. Spouse's taxable income (Do not include student aid.)	3 months $ 0 .00	9 months $ 0 .00

Section G Institutions, Release, and Certification

43. Student's college for the 1980-81 school year (see instructions)

1 ADAMS COLLEGE
Name of School
WASHINGTON
City
DC
State Code
SEOG use only

2
Name of School
City
State Code

44. I give the Basic Grant Program permission to send information from this form to:

a. the financial aid agency in my State ☒ Yes ☐ No

b. the colleges I listed in question 43 ☒ Yes ☐ No

See the instructions. If you leave (a) or (b) blank, we will assume your answer is "No." If you answer "No" to (a), your State aid may be delayed.

45. Certification

All the information on this form is true and complete to the best of my(our) knowledge. If asked by an authorized official, I(we) agree to give proof of the information that I(we) have given on this form. I(We) realize that this proof may include a copy of my(our) 1979 U.S. or State income tax return. I(We) also realize that if I(we) do not give proof when asked, the student may not get aid.

Fold

Sign
Student
Student's Spouse
Father
Mother

Date completed 01 17 80
Month Day Year

Mail your form to: BEOG
P.O. Box 8
Iowa City, Iowa 52240

FIGURE 3-1
(cont.)

33

3.1.2 Estimated Data

Given the large amount of misreporting that results in underawards, it is clear that purposeful misreporting is not the only problem with the application process. The use of estimated data in needs analysis exacerbates the problem. Estimated data fall into three categories: (1) estimates of future income; (2) estimates of current assets; and (3) estimates of family status.

Estimates of future income can only be expected to be approximations of reality. Their place in a needs analysis system may very well be valid, but if they are to be used "error" must be expected. This philosophical trade-off is outside the scope of these near-term corrective actions and is addressed in Chapter 7.

Estimates of current assets present a different problem. The "value" of any asset such as a home, real estate, a business, or a farm is not established with certainty until the asset is sold or a valid offer to buy it is made. Until that time it may or may not have value for, say, collateral on a loan, and there are likely to be transaction costs involved with converting the asset to spendable funds. Thus, it is difficult to evaluate error in the valuation of assets and very little, apart from better definitions, can be recommended for the short term.

Finally, estimates of family status are requested on the application form in two places--(1) in determining dependency status (Questions 11-13, see Figure 3-1) and (2) in determining number of dependents to be enrolled in college (Question 18).

In terms of dependency status, applicants are asked whether or not during the current calendar year they will live with parents for six weeks, will be claimed as tax exemptions, and will receive more than $750 from parents. These estimates are made at the time of application, usually two to five months into the year, and are, hence, error prone. The reason for asking these questions is to possibly elicit a "yes" response to any of them and thereby establish the student as "dependent." However, the applicant is also asked the same questions for the prior year (not an estimate), and any "yes" response already dictates "dependent" status. In summary, the current year estimates are asked solely so that students who were "independent" last year but may be "dependent" this year will be so identified.

Given that virtually all of the other financial data are for the previous year, this seems inconsistent. Further, in our sample only 0.7 percent checked "no" to all of the prior year dependency questions and then checked "yes" to one or more of the current year questions. In Section 3.2 we therefore recommend dropping the current year questions.

The estimate of siblings enrolled in college is not an analagous problem with the estimates of living status since prior year data are not applicable. This could be a difficult number to predict for some families, but it has a large effect on the student's Eligibility Index. Short of structural changes in the delivery system that might deliver aid to the family rather than to the student, the program will have to rely on the honesty of

the applicants and their ability to guess correctly for this data item at the application stage. To promote honesty we will recommend that the names of all dependents who will be enrolled in college be listed on the application.

3.1.3 Imprecision of Definitions

In the Stage One data collection the respondent applicants and their parents noted difficulty in understanding what information to furnish regarding certain line items. These items included:

- The definition of "parent"
- The time period for living at home that determines dependency status
- The definition of "$750 worth of support"
- The definition of "household"
- The definition of "Adjusted Gross Income"
- The definition of "income tax paid"

Each of these items can be clarified with better wording, and we suggest changes to accomplish this in Section 3.2.

3.1.4 Inappropriate Time Frames

Several items on the Basic Grant application are dependent on the day the form is filled out. This presents two problems. One is the difficulty of verifying the data. For example, the instructions for item 34 state, "Write in the amount of money that is in cash, savings, and checking accounts today." Is the applicant to include the amount actually in the checking account from the bank's viewpoint? From the viewpoint of the applicant,

who does not know which checks have cleared? Is the applicant to include interest earned on savings to date but not entered in his passbook?

The second difficulty is one of equity. Should applicants who submit their applications the day after paying their monthly bills be eligible for a larger award than if they submitted their applications before paying their monthly bills?

While the question of whether or not such assets should be included in needs analysis is not within the scope of this discussion, there are ways to clarify for applicants what they are being asked to estimate. We recommend some changes in Section 3.2.

3.1.5 Lack of Follow-up

To quote from our Stage One Report on Institutional Data Collector Debriefing, ". . . some financial aid administrators [FAAs] said they are discouraged from conducting their own validation because ED regulations prevent them from doing as much as they want to in tracking down misreporters. These FAAs said that often when they try to pursue a case the student calls the toll-free number, and the institution receives a complaint from ED for not giving the student the grant to which (s)he is entitled." Also from this report, "Some FAAs stated that ED fails to follow up on validation cases that are referred to Washington. Alternate Disbursement System [ADS] institutions, in particular, complained that ED spent an inordinate amount of time resolving validation cases." In Section 3.2 we urge that ED formally

assist institutions in following up on referred suspect cases through the use of Regional Office staff.

3.2 NEAR-TERM RECOMMENDATIONS

In this section we expand upon the recommendations just suggested to address problems in the application process. These recommendations revolve around three themes that emerged from the prior section's discussion of the problems:

- Asking the applicant to prove need
- Improving the identification and validation of likely erroneous applications
- Making the application form itself less error prone

The matrix of Figure 3-2 relates these themes to the five problem areas identified in Section 3.1. To date, ED has adopted the last two themes in attempting to reduce error. Our specific recommendations are an attempt to introduce the first theme and improve upon the second and third. In this section we present the near-term suggestions that do not require changes to the basic structure of the delivery cycle.

3.2.1 Theme #1: Asking the Applicant to Prove Need

As we have indicated in Section 3.1, an application that is not out of the ordinary may well be processed through the system unchecked. The goal of the delivery system should not be to expeditiously process applicants that appear needy but rather those who are needy. Clearly one cannot distinguish between the two without secondary data. The ideal solution would include major changes in eligibility analysis so that only readily verifiable data are used. Short of that, ED can begin to prevent

THEME	PROBLEM AREAS				
	DISTORTED FINANCIAL DATA	ESTI-MATED DATA	IMPRECISION OF DEFINITIONS	INAPPRO-PRIATE TIME FRAMES	LACK OF FOLLOW-UP
1. Proving Need	X				
2. Improving Identifica-tion and Validation	X				X
3. Decreasing Form-related Difficulties		X	X	X	

FIGURE 3-2

RELATIONSHIPS BETWEEN PROBLEM AREAS IDENTIFIED AND THEMES FOR APPLICANT AND APPLICATION CORRECTIVE ACTIONS

"needy looking" applications from being processed like "truly needy" applications through the requirement of at least one validating document at the time of application. Specifically:

RECOMMENDATION 3-1: ISSUE A VALID SER ONLY WHEN AN IRS 1040 OR A CERTIFICATION OF PUBLIC ASSISTANCE ACCOMPANIES THE APPLICATION, OR ALTERNATELY, WHEN A SIGNED RELEASE FOR IRS DATA MATCH ACCOMPANIES THE APPLICATION.

The implications of this recommendation are explored in Section 3.3. To carry out this recommendation, we suggest that a visual check of the application forms vis-a-vis these documents be made during the "cursory" edit step that is now part of the application processing system. If documentation is provided, inconsistent application data would be corrected by the processor, to conform with the data on the validating document.

The alternative procedure would be to prove need after the application process through individual matches with data from the IRS. An individually reported data match would require a release from the applicant. The advantage of this alternative is that it puts no additional burden on the application processor or the applicant would result in no additional time delay for processing. The disadvantage is that the data match would likely occur after initial award. In cases of initial underreporting of income this would result in the necessity for collecting refunds or making adjustments to future awards.

3.2.2 Theme #2: Improving the Identification and Validation of Likely Erroneous Applications

In the Stage One analysis, we have identified application characteristics associated with a high probability of error.

RECOMMENDATION 3-2: CONTINUE ED MANDATED VALIDATION BUT USE THE SELECTION CRITERIA DEVELOPED IN STAGE ONE

The Stage One error prone analysis yielded the "Lorenz Curve" shown in Figure 3-3. This figure shows the number of recipients chosen for validation in addition to those already selected versus the error that can be expected on these applications. We suggest ED decide upon the number to be validated by use of this curve. Additionally, since Stage One revealed considerable residual error on validated applications due to items that were not validated, we suggested performing more in-depth verification of each selected application. To extend the impact of the number of validations that are chosen we suggest:

RECOMMENDATION 3-3: PUBLICIZE TO STUDENTS THE VALIDATION ACTIVITY AND ITS POSSIBLE CONSEQUENCES.

We believe that discouraging the use of erroneous information is more cost-efficient than trying to find error after the fact. The impact of validating a small percentage of eligible applicants can be extended to other applicants through informing all applicants that a sample of applications will be validated and that criminal penalties will be enforced for obtaining a Basic Grant with false information.

Validation criteria are not the only methods for investigating suspect applications. Many institutions perform validation for their own aid programs and in the process detect errors in Basic Grant information. As we have just shown, there is a

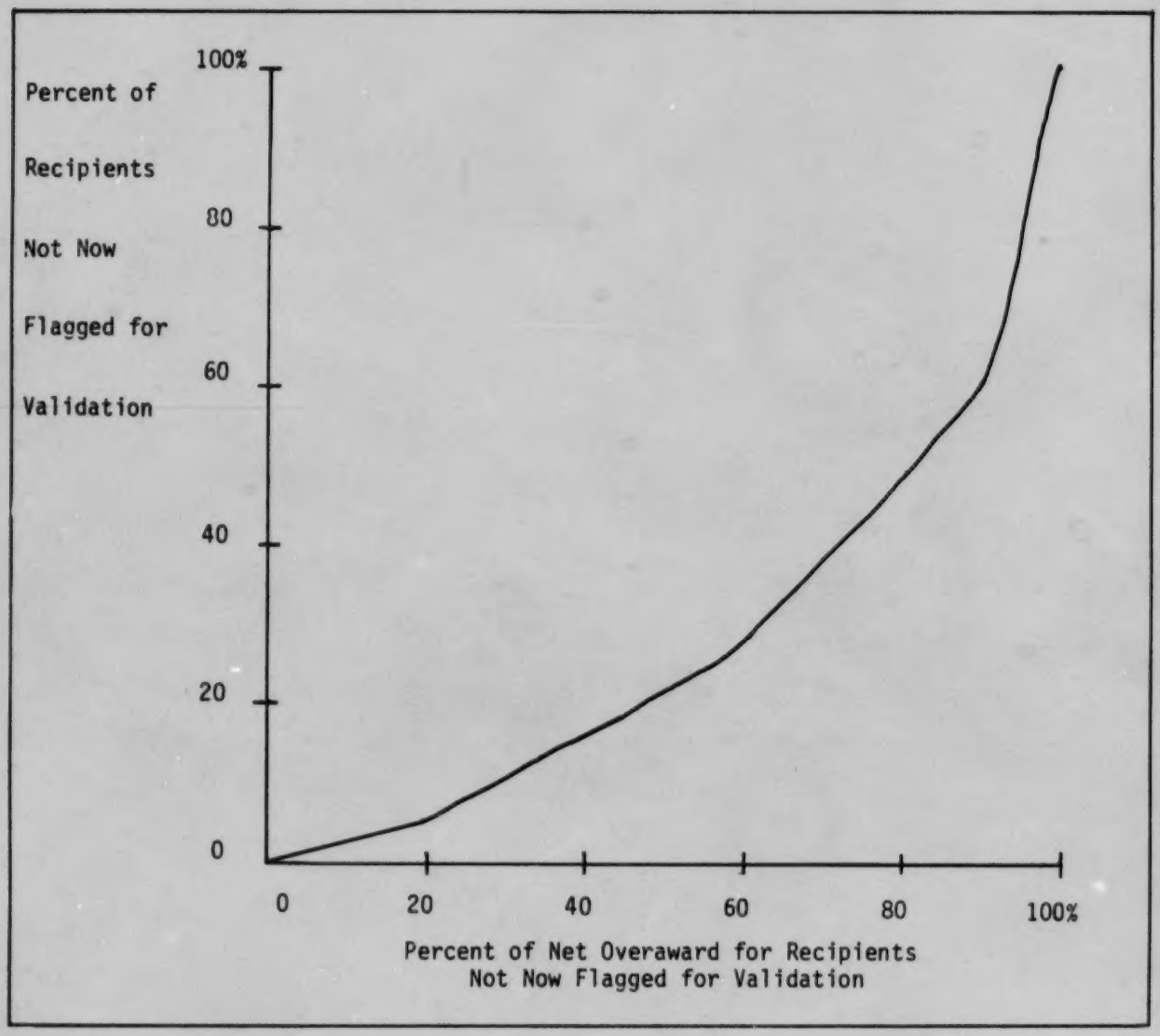

FIGURE 3-3

"LORENZ CURVE" FROM ERROR-PRONE PROFILING

reluctance on the part of institutions to refer such cases to ED because of the lack of timely and sympathetic response. To maintain the integrity of the referral process it is imperative to establish an adequate response mechanism. Therefore:

RECOMMENDATION 3-4: ESTABLISH ONE INDIVIDUAL AT EACH REGIONAL OFFICE TO BE RESPONSIBLE FOR FOLLOWING UP ON EACH INSTITUTIONAL REFERRAL FROM THAT REGION.

With a single individual responsible for follow-up, each institutional aid officer will have one point of contact and one place to point the finger if not satisfied with ED's response.

3.2.3 Theme #3: Making the Application Form Itself Less Error Prone

In this chapter we have constrained ourselves to making suggestions for corrective actions, given the current eligibility and needs analysis system. (In Chapter 7 we relax this constraint.) This system necessitates the collection of a large number of data items. At a minimum, ED can make the definitions easier for the applicant. While we realize that ED is currently exploring improvements in the application[1], we offer several specific recommendations.

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[1] For example, a recent ED-sponsored study field-tested three prototype application forms. These were (1) the current form with minor modifications, (2) a short application consisting of separate forms for independent and dependent applicants, shortened instructions, and fewer data items, and (3) a short application form with simplified instructions and fewer data elements that both independent and dependent students would file. Results indicated that the split short application (the second alternative) produced the lowest error rate.

RECOMMENDATION 3-5: CHANGE THE DEFINITION OF DEPENDENCY STATUS TO EXCLUDE CURRENT YEAR ESTIMATES.

As we have demonstrated in Section 3.1, the use of these estimates currently only causes "dependent" status in an estimated 0.7 percent of all cases and is, in any case, speculative and unverifiable.

RECOMMENDATION 3-6: ASK FOR THE NAMES OF DEPENDENTS WHO WILL BE ENROLLED IN POSTSECONDARY EDUCATION INSTITUTIONS DURING THE AWARD YEAR.

This recommendation is proposed as one method of promoting honesty on the application. The names should be checked against dependents listed on the IRS 1040 (see Recommendation 3-1) during the "cursory edit" stage of application processing.

RECOMMENDATION 3-7: IMPROVE THE DEFINITION OF VARIOUS ITEMS ON THE APPLICATION FORM AS FOLLOWS:

- Place the definitions of a "parent" and the four parent status options directly on the form itself at the beginning of Section B.
- Define parents' and students' marital status as of a specific date.
- Delete the item relating to $750 or more of parental support and add the following new line item for independent students under nontaxable income in Section D: "Amount of financial support received from your parent(s) or guardian or relative."
- Eliminate the word "household" from the question on family size and replace it with, "Enter the number of exemptions claimed by your parents on their 1040. If the 1040 has not been filed, include the student applicant, parent(s), and parent(s)'s dependent children even if not living at home. Include other dependents if they meet the definition in the instructions."

- Remove the deduction of student aid earnings from Adjusted Gross Income [AGI] and have applicants show the AGI number as it appears on their IRS 1040 or 1040A.

- Drop from the instructions, "Do not include taxes paid on earnings from student financial aid programs" for the line item referring to US income tax paid. Instead, instruct applicants to show the U.S. taxes paid number as it appears on their IRS 1040s or 1040As.

- Delete "cash" from application line 34 ("cash, savings, and checking accounts"). Also specify that the savings and checking account values are to be specified as of January 1 and include all interest credited as of that date. Similarly, set the date at January 1 and delete cash from Item 38, Student's Savings and Net Assets.

We believe these definitional changes will help in the near term but emphasize that these are only interim solutions to a more deeply rooted problem of errors in applicant-reported data.

3.3 IMPLICATIONS OF THE RECOMMENDATIONS

In this section we assess the costs, benefits, and administrative requirements of each of our recommendations.

Recommendation 3-1, in its documentation version, requires that applications be accompanied by a secondary supporting document, either an IRS 1040 or a certification of public assistance. The primary burden of this requirement falls on the applicant, a lesser burden on the processors, and no new burden falls on the institution (see Figure 3-4).

The applicant would be required to submit supporting documentation with the application. If the applicant's family files a Federal income tax return then the applicant will:

RECOMMENDATION	GOVERNMENT	APPLICANT	PROCESSORS	INSTITUTIONS
3-1[1]	No Change	Increased Burden	Increased Burden	No Change
3-1[2]	Increased Burden	No Change	No Change	Increased Burden
3-2	No Change	Increased Burden	Increased Burden	Increased Burden
3-3	Increased Burden	No Change	No Change	No Change
3-4	Increased Burden	No Change	No Change	No Change
3-5	No Change	Decreased Burden	No Change	No Change
3-6	No Change	Increased Burden	Increased Burden	No Change
3-7	No Change	Decreased Burden	No Change	No Change

[1]Application with accompanying tax or public assistance documentation.

[2]Application with signed IRS release.

FIGURE 3-4

WHO SHOULDERS THE BURDEN FOR EACH RECOMMENDATION?

- Need to wait until the tax return is completed before applying for a Basic Grant
- Have to photocopy the tax return and include it with the Basic Grant application

The increased burden of these two requirements on such applicants is minor. From Stage One data we estimate that 17 percent of recipients' families do not file Federal income tax returns. Of these, 28 percent receive welfare payments and 39 percent receive Social Security benefits. These applicants will:

- Have to obtain or photocopy a record of receipt of public assistance
- Have to submit this record with their application

The processors would have an additional burden if this version of the recommendation is accepted. Inconsistent application data would be corrected by the processor to conform with data on the supporting document. This could be done during the "cursory" edit step that is already a part of application processing.

The expected benefits derived from the documentation version of the recommendation come from a reduction in application error that may be substantial. Taken alone, if all AGI data submitted by applicants were correct, there would be an estimated net program savings of over $100 million. Further, our Stage One data show that 72 percent of all welfare recipients who received aid were eligible for maximum awards, and 58 percent did not file Federal income tax returns. Thus, documentation of welfare receipt could greatly facilitate the processing of truly needy students while going far towards reducing the appearance of need for those not really eligible.

This version of the recommendation could be implemented through administrative means, without legislative or regulatory change. Since the application forms for 1982-83 are already in preparation, the earliest practical application of this recomendation would be for the 1983-84 award year.

As a temporary measure for 1982-83, the function of checking secondary source data could be performed by institutions. That is, the Financial Aid Office would be responsible for the visual check and having the applicant submit a correction, if necessary, prior to making an award. In concept, this is similar to the validation procedure now in place. The differences are that all applicants would be checked, only the IRS items (or public assistance receipts) would be checked, and no additional validation forms or paperwork would be required of the student or the school.

The alternative to this version of Recommendation 3-1 calls for issuing an SER only if a signed release for an IRS data match accompanies the application. This version of the recommendation could also be implemented through administrative means, without legislative or regulatory change. It would, of course, require interagency cooperation.

It is unlikely that any data match can be achieved before the fall academic term. It is therefore assumed that the match will occur after many, if not most, initial awards are made. If there are errors in the IRS items (AGI, taxes paid, and medical/dental expenses) that affect the applicant's SEI, then both the

applicant and his or her institution would have to be notified of the change. Since new SEIs will necessitate a change in award in many cases, a procedure will have to be established to either collect a refund from the student, pay the student any additional funds due, or adjust future awards to account for the difference in eligibility.

Recommendation 3-2 calls for continued institutional validation with additional selection criteria and additional validation items. There would be an increase in the already heavy burden on institutions and students that accompanies current validation activities. There would be no additional operating burden on the processors but there would be minor programming costs associated with changing the selection criteria.

Figure 3-3, the "Lorenz Curve," shows the minimum additional applications to be selected for validation to identify applicants with any given level of error. However, current validation activities only catch part of the error of those flagged for validation.[1] Thus, there are three ways to correct more error than is now being corrected:

- Perform more in-depth validation of those already flagged for validation.
- Continue the same validation procedure but flag more applicants.
- Flag more applicants and perform more in-depth validation.

---

[1]In Chapter 7 of Volume 1 we estimated $95 in net student error per recipient remained after validation.

All three of these approaches mean an increased burden on institutions and students, the degree of increase varying with the number of corrections sought. While it is difficult to estimate the increased burden precisely, we can identify two approaches:

- For those who were flagged for validation in 1980-81, an estimated $95 per recipient in net overawards due to students remained. Thus, verification of all data items for those already flagged for validation would result in a savings of approximately that magnitude. The burden would be an extensive interview, perhaps an hour or more, with each selected recipient.

- For those not currently flagged for validation we have constructed the Lorenz Curve of Figure 3-3. From this curve we can estimate the error associated with any fraction of the nonvalidated recipients. For example, 1.9 percent of the nonvalidated recipients have 7.9 percent of the remaining error. These recipients have the characteristics of groups 35 and 27 from the error-prone profiling of Volume 1, Chapter 6. By flagging these recipients for validation, in addition to those already flagged, we can target additional validation quite precisely. As we increase the number of newly flagged students, there is a commensurate increase in student and institutional burden.

Let us give a numerical example of the second approach. Suppose, using the Lorenz Curve, you flag 20 percent of the applicants not currently flagged for validation in an attempt to identify applicants with 50 percent of the student error. Volume 1 indicated total net student error of $246 million. We estimated over $200 million of that lies among nonvalidated students. Thus, error-prone profiling allows you to identify 20 percent of the nonvalidated recipients (approximately 430,000 students) with 50 percent of the error ($100 million).

No statutory changes are involved in implementing this recommendation. The new selection criteria can be implemented for the 1983-84 award year.

Recommendation 3-3 is for publicizing to students the validation activities and their possible consequences as a means of discouraging the use of erroneous information by applicants. The purpose of this publicity is to extend the impact of validating a small percentage of applicants by creating the attitude that errors will be caught by the Government.

The cost of this activity is one that would be borne by OSFA in creating the necessary publicity without discouraging the needy from applying and without appearances of indiscriminate harassment. It could involve public announcements by ED officials citing Departmental intent and examples of fraud that were revealed through validations. It may also involve warnings printed on the application form that are more visible and intensive then are currently used. Again citing specific cases of successful validation would give these warnings more impact.

The benefit would be reduction in intentional misreporting of information on the application and, perhaps, more careful attention given by all filers thus reducing unintentional error as well. The implementation of this recommendation could be accomplished for the 1982-83 award year.

Recommendation 3-4 calls for the assignment of one specific individual at each regional office to be responsible for following up on institutional referrals. This was suggested to

overcome the reluctance of financial aid administrators to referring suspect applications to ED because of bad prior experiences.

During 1980-81 there were only 80 referrals to ED from schools using the Regular Disbursement System [RDS]. This produced an average of eight per region. Assuming that an existing regional office staff member can handle this work load, the cost to ED would be low. If the regional office responsibility is well received by institutions, the number of referrals may rise sufficiently to necessitate additional staff. The assignment of regional office staff to this role can be done without regulatory or legislative change and can begin as soon as the Department desires.

Recommendation 3-5 is one of three recommendations intended to make the application form itself less error prone. This recommendation involves a change in definition of dependency status by excluding current year estimates of parental support. This change would only affect those applicants who were "independent" (did not live at home 42 days, were not claimed as income tax exemptions, and did not receive $750 in support from their parents) in the prior year but would be classified as "dependent" in the current year. The result would be to classify these "dependent" students as "independent."

In our Stage One sample of recipients, only 0.7 percent of the students would have their dependency status changed by this action from "dependent" to "independent," but a major source of

error would be eliminated. Current-year data were shown to be highly error prone (20 percent of recipients incorrectly reporting at least one of the three current year items). Implementing this action would require regulatory change and could not be accomplished until 1983-84.

Recommendation 3-6 asks for applicants to supply the names of dependents who will be enrolled in postsecondary education during the award year. From our Stage One data, we estimate that approximately 19 percent of all recipients indicate the wrong number on their applications, and that if they entered the correct number in college, net program error would decrease by over $14 million.

While applicants would still list bogus students or make innocent mistakes, this recommendation is intended to promote honesty with minimum administrative and applicant burden. We propose that if this recommendation is accepted in conjunction with Recommendation 3-1 that the application processor check the list of dependent students against tax exemptions during the "cursory edit" stage.

This recommendation requires a change in the application form and would not be feasible until the 1983-84 award year.

Recommendation 3-7 calls for improved definitions in seven areas on the application form. The intent is to reduce error by clarifying the meaning of terms such as "parent," "marital status," "parent support," "household," "income," and "taxes paid." The cost of this recommendation is negligible, and it is

not possible using Stage One data to determine the expected decrease in program error. However, pretesting various specifications of the definitions would give estimates of expected benefits. This pretesting can begin immediately for the 1983-84 award year.

CHAPTER 4

INSTITUTIONAL RECOMMENDATIONS

4.1 THE PROBLEMS

Problems we have identified at institutions relate less to institutional errors in determining student eligibility for Basic Grants than to larger areas of concern within institutions, such as current BEOG regulations on satisfactory academic progress, central processing procedures, BEOG award and disbursement procedures, and Federal reporting requirements. Identified problems fall into two categories--those we have detected through Stage One data analysis and those reported to us by FAOs, other financial aid officials, and PIMS program staff during formal and informal discussions over the last six months.

The major problem areas we have detected through Stage One data analysis are:

- Enrollment Status Changes. Our data indicate a substantial amount of change in enrollment status among BEOG recipients within one academic year, particularly students reducing course loads and withdrawing from school soon after receipt of Basic Grant funds.

- Differences between Actual Disbursements and Expected Disbursements. Data collected from institutional records in late spring of 1981 show that actual BEOG disbursements made by institutions appear to be greater than expected disbursements (based on SER cost of attendance data indicate they should be).

The problems reported by FAOs and others covered a wide range of topics and in some cases were contradictory. Nevertheless, three problem areas were mentioned repeatedly:

- Delays Due to Collection and Signing of SERs. Having to collect, fill out, and sign three copies of every SER is time consuming and unnecessary. Some FAOs feel the SER should not be used as both a notification and a disbursement document.

- The Time-Consuming SER Corrections Process. Students make numerous corrections to SERs, either unsolicited or because of validation. The long lag time between submission of corrections to the central processor and receipt of a new SER causes substantial delay in BEOG disbursements, and in some cases the corrections made do not effect a change in the SEI.

- Changes in Dependency Status. It appears that a significant number of students switch from dependent to independent status in consecutive years. This implies a possible violation of the BEOG regulation requiring a student to be fully independent for at least one year before qualifying for independent status.

One other large component of institutional error is that caused by missing Affidavits of Educational Purpose and Financial Aid Transcripts from students' files--AEP/FAT error. No formal corrective action is being recommended to address this error. However, as we discussed in Volume 1 (Findings), in light of the error caused it would be advisable for ED to reassess the value of these forms to the overall integrity of the BEOG program. Is the error currently involved in these forms truly troubling, or is it an audit matter not meriting intense ED regulation and concern? If their positive value is confirmed and regulations go unchanged, ED should emphasize to institutions the necessity of having these forms on file before making disbursements.

4.1.1 Enrollment Status Changes

There is considerable evidence from our Stage One analysis that students reduce course loads or drop out of school both

before and after receiving Basic Grants. Over 17 percent of the students who were enrolled full time at the time of their first disbursement were either no longer enrolled or had dropped below full-time status at the time of their second disbursement, while 36 percent of students who were half or three-quarter time at the first disbursement (9 percent of the total sample) had changed to full time at the second disbursement.

These facts alone are not surprising. Students make course changes all the time and in doing so often change enrollment status. The substantial number of institutional adjustments to BEOG awards found during our data collection due to student enrollment changes are in keeping with this. These numerous adjustments to BEOG awards do not, however, include the relatively large number of cases where students drop out or greatly reduce course loads after they have received their grants and are 100 percent tuition-liable, according to institutional policies.

The findings on enrollment status changes, along with other indicators, lead us to suspect a notable pattern of abuse in the BEOG program: students enrolling in school in order to receive Basic Grants, then dropping out after the end of refund periods requiring student repayment of BEOGs. As a result, institutions disburse BEOG awards to students who substantially reduce course loads or drop out without violating BEOG regulations.

A quote from our Stage One Report on Institutional Data Collector Debriefing points to this pattern:

> Nearly all the interviewers agreed that there are serious abuses surrounding institutions' satisfactory academic progress policies. Many institutions have very lenient, open door policies. Abuse appears to be most prevalent at low cost open door schools in low income areas: a student at such a school can enroll, receive a grant, not show up for class, and receive a full refund. State institutions appear to encourage this practice since they receive state funds based on a full-time enrollment count.

A second quote directly from an FAO interview lends further support:

> Basic Grants should have on their (validation) roster: the number of hours taken, did the student complete the hours, did the student drop out?--like on the GSL roster. Then they could catch up with those committing fraud. I think it's okay to credit the student's account with that portion of the BEOG money, but I think money shouldn't be given directly to the student until the student has completed each semester with satisfactory progress. It would save a lot of money for BEOG. We have a lot of students who drop out mid-term after they have gotten their money. This might give them some incentive to finish the semester. We have a very low economy here. We have the highest unemployment and ADC in this state, only about 10 percent of the people who fill out BEOG applications are denied. Word gets around that they can get money for going to school. I got my money; I think I'll drop. If you are going to give them the money, let them finish the courses.

4.1.2 Differences between Actual Disbursements and Expected Disbursements

Institutional data collected in mid to late spring of 1981 show that actual BEOG disbursements made by institutions were discrepant by an average $77 from calculated expected disbursements. The expected disbursement amounts were calculated using cost of attendance data from the file copies of students' SERs and enrollment data from registrar records. From our experience, the cost of attendance figure from the file SER appears to be the best figure to use in assessing award calculation errors since

this is most likely the figure FAOs use to calculate awards. Given that this figure may not reflect postdisbursement enrollment changes, a discrepancy between scheduled awards based on SER cost of attendance data and actual disbursements is not surprising.

Nevertheless, this $77 discrepancy is significant in that it points to a possible procedural shortcoming in the BEOG program that may be a source of error--namely, that ED does not require institutions to report adjustments to BEOG awards until after the award year has ended.

As stated in Section 4.1.1, numerous student enrollment status changes compel institutions to substantially adjust BEOG award calculations and disbursements throughout the academic year. Without such adjustments, there is tremendous potential for institutions to overdisburse BEOG funds. At a minimum, this discrepancy between actual disbursements and expected disbursements may mean that schools take a long time or simply wait until the end of the year to reconcile their BEOG accounting records and repay the BEOG account. Alternatively, the discrepancy may suggest a lack of coordination and information flow between business, financial aid, and student registration offices. In the worst case, it may be that some schools simply do not check enrollment status changes or do not catch their own BEOG calculation and disbursement errors.

Analysis of institutional error indicates that 73 percent of the portion of institutional error attributable to calculation

and disbursement procedures (excluding all eligibility errors, such as AEP/FAT or satisfactory progress error) is within $50, over or under, of the correct BEOG award. Eighty-two percent were off by $150 or less. Thus, while substantial institutional error is caused by calculation and disbursement mistakes, these findings indicate that a high incidence of small overawards and underawards constitute the bulk of this type of error.

4.1.3 Delays Due to Collection and Signing of SERs

This often-mentioned problem is not necessarily related to error but is viewed as a procedural problem and a burden to FAOs. The awkward size of the 1980-81 SER may have contributed to this ready complaint during FAO interviews. Another related problem is the diversity in when and how completely institutions fill out Section 3 of the SER. We found from FAO reports and our site visits that some file SERs were complete and updated with current enrollment and award information, others were only partially complete, and a substantial number were blank in Section 3, which prevented our interviewers from collecting SER scheduled award data.

While this is discussed here as a problem, no near-term corrective action to deal with the problem of collecting and signing SERs is being proposed. Nor is it true that the elimination of this requirement is desired by all actors in the BEOG system. In Chapter 7, where we discuss major redesign of the BEOG delivery system, alternative handling of the SER is considered.

4.1.4 The Time-Consuming SER Corrections Process

FAOs frequently mentioned as problems the number of SER corrections students must make and the enormous delays in the processing of corrections. Because of sluggishness and errors in the SER corrections process, many FAOs feel there is definite need for improvement, and a significant number feel they could just as easily make corrections and recalculate the SEIs themselves. Related problems are long delays before disbursements and student frustration with the corrections process, which can cause them to drop out of the system before award.

4.1.5 Changes in Dependency Status

Asking students to prove they are truly independent is a sensitive issue. The only hard documentation for proof of independence is the parents' Federal tax form showing that the student was not claimed as an exemption. Given the substantial amount of time FAOs spend collecting tax forms from independent students and parents of dependent students, most have not extended policies this one step further to collect tax forms from parents of independent students. Yet, the increasing number of independent students in the BEOG program cause FAOs and others to suspect some abuse in this area.

Data from the parent/student survey (see Volume 1) show that 16 percent of the recipients claiming to be independent on the BEOG application were found to be dependent upon thorough verification of their application data. Relating to the discussion in Chapter 3 on having to look needy rather than having to prove

need to become eligible for a Basic Grant, the BEOG program currently requires only that applicants look independent. They do not have to prove independence even when a switch of status occurs between years.

4.2 NEAR-TERM RECOMMENDATIONS

As in Chapter 3, in this section we make several recommendations to address the problems just discussed. Three themes surround these institutional recommendations:

- Creating an incentive in the BEOG program for students to complete course work
- Changing administrative procedures to promote program compliance and reduce delays
- Adding new verification requirements for critical BEOG application items

The matrix in Figure 4-1 relates these themes to the five problem areas identified in Section 4.1.

4.2.1 Theme #1: Creating an Incentive in the BEOG Program For Students to Complete Course Work

To address the problem of students reducing their courseloads or withdrawing immediately after the end of a refund period and receipt of BEOG cash disbursements, we propose the following corrective action:

RECOMMENDATION 4-1: INTRODUCE A PROGRAM-WIDE MINIMUM CREDIT REQUIREMENT POLICY IN PLACE OF SATISFACTORY PROGRESS POLICIES DESIGNED BY INSTITUTIONS.

Under this recommendation, for each 12-month award period students must earn (according to institution definition) the

THEME	PROBLEM AREAS				
	ENROLLMENT STATUS	DIFFERENCE IN ACTUAL AND EXPECTED DISBURSEMENTS	COLLECTION AND SIGNING OF SERs	SER CORRECTIONS PROCESSED	CHANGES IN DEPENDENCY STATUS
1. Creating an incentive in the BEOG program for students to complete course work	X				
2. Changing administrative procedures to promote program compliance and to reduce delays		X	X	X	
3. Adding new verification requirements for critical BEOG application items					X

FIGURE 4-1

RELATIONSHIPS BETWEEN PROBLEM AREAS IDENTIFIED AND THEMES FOR INSTITUTIONAL CORRECTIVE ACTIONS

minimum number of credits required by the level of disbursements received from the BEOG program before receiving a further year of BEOG funding. For example:

> In a two-semester school if a student received a Basic Grant based on full-time attendance for two semesters, 24 credits must be earned before he or she receives BEOG funds for a second year. Minimum credit requirements would remain as they are now: FT = 12credits, 3/4 T = 9 credits, 1/2 T = 6 credits per semester or per quarter.

This corrective action is based on the premise that students should finish courses for which they enroll and pay for with the help of BEOG funds. The BEOG program should not only offer choice and access but should provide explicit incentive for students to complete courses and make normal progress toward earning a degree. Providing incentive to successfully complete courses actually supports another goal of the Basic Grant program, that of persistence. In this case the goal is academic persistence. To make allowance for special cases, an appeals process should be coupled with this requirement to handle only exceptional cases where students had to drop out for medical or other reasons outside of their control.

Students change course loads continuously, and no rule change in a Federal financial aid program will prevent students from changing their course loads, nor would this be desirable. Nevertheless, there should not be an opportunity within the Basic Grant program for students to gain monetarily by enrolling in school only to drop out one month later and to repeat this pattern over and over without violating BEOG regulations.

The first BEOG Quality Control Study, conducted in 1978-79, produced a recommendation regarding the need for improved articulation of satisfactory progress policies. The following statements from that study point to the fact that some abuse in the area of satisfactory progress compliance was detected at that time:

> Certain abusive practices have been detected such as the exclusion of Ds or Fs from determinations of grade point averages and the use of special letter grades (in lieu of Fs) to signify situations when a student drops a course late in the term (the grades are not included in the grade point average computation). BSFA standards should at least extend to eliminating such practices.
>
> A second level of regulation would be the mandating of levels of performance and quantities of progress. Evidence indicates that these standards vary widely, and that a single standard would be difficult to develop.

Though our data do not allow us to specifically separate enrollment status changes related to academic decisions from those that appear to be abusive practices on the part of students, institutions and states have to some extent begun to address this problem on their own. Findings from our FAO interview data indicate that 7 percent of our sample institutions have instituted policies that require students to satisfactorily complete 50 to 100 percent of courses taken. One such policy currently in place at a nearby community college is shown in Figure 4-2. Over half of the schools with such policies are community colleges, giving some indication that this pattern of students enrolling and withdrawing may be more prevalent at low-cost institutions with open admissions policies. At the least,

COMMUNITY COLLEGE

SATISFACTORY PROGRESS POLICY FOR FINANCIAL AID RECIPIENTS

Students who receive financial aid must maintain a standard of satisfactory progress.

Since _____ Community College offers associate degrees which normally require 97 credits, a student attending on a minimum full-time basis can complete a degree program in 9 quarters. Therefore, students will normally be limited to 9 full-time quarters of eligibility on the financial aid programs. Students who attend on less than a full-time basis may take up to 12-18 quarters of enrollment to use this entitlement at ____.

The Financial Aid Counselor will monitor satisfactory progress on each financial aid recipient per quarter hours of enrollment on which financial aid disbursement was based. As part of the yearly awarding cycle, every applicant who has received aid will be reviewed for continued funding. Student records must reflect satisfactory progress at a minimum of twelve (12), nine (9), or six (6) credit hours per quarter depending on the amount of aid received as a full-, three-quarter, or half-time student. Satisfactory completed credits are those for which a grade of A, B, C, D, R, or S is received.

If the student transcript does not indicate compliance with minimum requirements, the student will be notified that his/her financial aid has been terminated. To be reinstated on the financial aid program a student must verify earning the minimum number of credit hours per prior financial aid disbursements. The student will pay his/her own expenses during this time.

At the time of the original award, the student will be notified of the satisfactory progress policy and of the 9 quarter full-time limitation for receiving financial aid at ___. Students who do not complete their program within the 9 quarter limitation may request an extension by submitting a written request to the Financial Aid Office.

Approved by Administrative Council
12/16/80

FIGURE 4-2

EXAMPLE OF AN EXISTING ACADEMIC PROGRESS POLICY
(FROM A COMMUNITY COLLEGE IN THE GREATER WASHINGTON, D.C., AREA)

such schools seem most active in fighting the problem. In addition to these institutional policy actions, at least three state scholarship programs (Virginia, Pennsylvania, and West Virginia) have policies making continued eligibility for grants contingent upon completion of previous credits taken.

4.2.2 Theme #2: Changing Administrative Procedures to Promote Program Compliance and Reduce Delays

While it is clearly an objective of ED to have institutions comply with BEOG regulations and carry out their administrative role in the program correctly, certain procedures and elements of the program do not necessarily promote institutional compliance. Other procedures cause inaccuracy or delay. The three corrective actions recommended under this theme are aimed at creating procedures that will facilitate greater institutional compliance with BEOG program regulations.

To promote more accuracy in determining BEOG Scheduled Awards and more timely award adjustments to students' accounts due to course load and cost of attendance changes, we propose three corrective actions, Recommendations 4-2, 4-3, and 4-4.

RECOMMENDATION 4-2: RESTRUCTURE THE BEOG PAYMENT SCHEDULE TO BROADEN BEOG COST OF ATTENDANCE AND DOLLAR AWARD CATEGORIES.

For example, develop six specific but broad cost of attendance categories, such as Cost Category A--less than $1,500, B--$1,500-2,000, C--$2,001-2,500, D--$2,501-3,000, E--3,001-3,500 and F--greater than $3,500. BEOG awards could be graded by $200 increments, such as $200, $400, $600, $800, etc. Figure 4-3 is

an example of a BEOG payment schedule with a reduced number of award cells (60 as compared to the 2,178 cells in the current payment schedule). Award amounts in each cell reflect an average, to the nearest 100, of awards falling into each category from the 1980-81 BEOG payment schedule.

The effect of this type of corrective action on the distribution of BEOG awards among different populations of students and institutions would, of course, have to be analyzed. However, it is readily apparent that broadening cost of attendance [COA] and award categories would substantially ease the complexities of BEOG award calculation and disbursement and would eliminate a certain amount of calculation error. In addition, institutions and the PIMS program would be freed from having to make minor adjustments to BEOG awards due to minor changes in cost of attendance, as is the present case for institutions with costs equal to or less than $3600. For example, a $50 cost of attendance change can trigger as little as an $18 change to a BEOG award.

Another benefit of simplifying the cost of attendance and award size categories would be a change in the way students determine the amount of their BEOG awards. By use of a simple chart, student budget information, and the SER, a student could calculate the amount of his or her own award without having to send the SER to an institution for calculation. This would cut down the number of times students send SERs to institutions before deciding which institutions they plan to attend.

SEI / COA	0	1 - 200	201 - 400	401 - 600	601 - 800	801 - 1,000	1,001 - 1,200	1,201 - 1,400	1,401 - 1,500	1,501 - 1,600
<1,500	700	700	700	700	700	500	300	200	0	0
1,500-2,000	800	800	800	800	800	800	500	300	200	200
2,001-2,500	1,100	1,100	1,100	1,100	1,100	900	700	500	300	200
2,501-3,000	1,300	1,300	1,300	1,200	1,100	900	700	500	300	200
3,001-3,500	1,600	1,600	1,500	1,300	1,100	900	700	500	300	200
>3,500	1,750	1,700	1,500	1,300	1,100	900	700	500	300	200

FIGURE 4-3

EXAMPLE OF A SIMPLIFIED BEOG PAYMENT SCHEDULE

The BEOG regulation, not yet in effect, allowing institutions to use average cost of attendance figures will somewhat alleviate the problem of minor award adjustments due to minor cost changes. However, it will not eliminate the complicated payment schedule or the necessity for students to send SERs to several institutions for award calculation.

RECOMMENDATION 4-3: HAVE INSTITUTIONS COMPLETE A MID-YEAR STUDENT VALIDATION ROSTER IN ADDITION TO THE ONE REQUIRED AT THE END OF THE AWARD YEAR FOR RECONCILIATION OF BEOG DISBURSEMENT.

A mid-year roster would oblige institutions to systematically reconcile their accounts at least twice per year in accordance with enrollment and other changes made by students that affect BEOG award amounts. In addition, the submission of mid-year data on actual BEOG disbursements made the first half of the award year would provide OSFA with more current expenditure data for use in BEOG funding projections. As one FAO remarked, "This would allow us to straighten out the first half of the year before dealing with the problems in the second half."

As a second step of this recommendation, spaces for new data elements such as the enrollment and cost of attendance factors used to calculate BEOG disbursements for each term could be added to the validation roster. Collection of such data would enable ED to better monitor the accuracy of institutional award determinations.

Because of differences in timing of disbursements between quarter-term schools and semester-term schools, it may be

advisable to diversify this corrective action between types of schools--i.e., requiring semester schools to complete two rosters and quarter-term schools to complete three in accordance with their end-of-term schedules.

Excessive corrections to SER data and related long-time delays in disbursements to students reportedly cause problems for numerous FAOs as well as students. Currently, students must correct any data on the SER that are found to be incorrect either by the processors' edit systems, by the student upon receipt of the SER, or by FAOs through validation. Corrections can take anywhere from three to six weeks for processing, and in some cases the SEI does not change. Further, this corrections delay problem may actually deter FAOs from looking for discrepancies or requiring students to submit SER corrections in cases not validated by ED, when they otherwise would.

The heart of this corrections problem is the BEOG application itself, corrective actions for which were discussed in Chapter 3 of this report. On a different track, the following corrective action addresses the time lag problem that SER corrections processing introduces once a student has enrolled in school.

RECOMMENDATION 4-4: ALLOW FAOS TO RECALCULATE SEI BASED ON CORRECTED DATA AND MAKE FIRST DISBURSEMENTS TO STUDENTS WHILE WAITING FOR RECEIPT OF THE CORRECTED SERS FROM THE PROCESSOR.

At their option and with student agreement, FAOs could:

- Make necessary changes to SER data
- Recalculate the SEI using the BEOG needs analysis formula
- Make a first disbursement based on the recalculated SEI

In turn, the FAO must check that the student sends the same corrections to the processor and subsequently submits an updated SER to the school.

Under this system institutions would be liable for any overpayments made due to SEI recalculation errors. This corrective action is targeted particularly to students required to make corrections because of validation. Often students picked for validation are very needy and cannot afford to wait six weeks for their first disbursements. In addition, if FAOs were allowed to recalculate SEIs, the student could be advised of his or her change in award much sooner, thereby providing more time for the student and institution to redirect resources if necessary. FAOs state that they have long been trusted to recalculate parents' contributions using the Uniform Methodology formula and see no reason to be prohibited from recalculating the SEI.

As stated, this corrective action should be optional for those institutions willing to take on the liability concurrent with the privilege. Institutions not willing to do so could continue to hold up disbursement until receipt of an updated SER. This recommendation is offered not as a solution to the corrections problem but as an interim way to ease some of the strain this problem causes in the system, particularly for students and institutions.

4.2.3 Theme #3: Adding New Verification Requirements for Critical BEOG Application Items

Since our BEOG applicant data are strictly from the 1980-81 award year, we cannot analyze this reported problem of students whose parents were purportedly claiming them as exemptions for two years running, then switching from dependent to independent status in the second year. Nevertheless, FAOs recited this as something they believe is happening, possibly because there is no mechanism in the program, other than institutional policies or personal knowledge, to prevent students from doing this. To combat this problem a fairly simple corrective action could be instituted.

RECOMMENDATION 4-5: SPECIFY A NEW EDIT FOR THE BEOG PROCESSOR EDIT SYSTEM THAT WILL TRIGGER A VALIDATION FLAG IF STUDENTS SHOW A CHANGE FROM DEPENDENT TO INDEPENDENT STATUS BETWEEN YEARS.

Along with this, we recommend that the processor add a new SER validation comment stating that students flagged for this reason must submit copies of their parents' tax forms to FAOs at their institutions. SERs could be flagged whenever such a status change occurs between years or within the same award year.

A corrective action of this sort would require processors to develop the capability for cross-year edits. We realize preparing for large-scale cross-year edits is a sizable and complex project; however, as a first step, a dependency status edit would be less complicated than some others and would be a logical place to start.

The following corrective action is not based on a problem identified through data analysis or comments from FAOs; rather, it is based on our experience with SEI calculation and our knowledge of critical data elements that affect the outcome of the SEI.

RECOMMENDATION 4-6: REQUIRE THAT ELIGIBLE BEOG RECIPIENTS, UNTIL THE TIME OF THE FIRST BEOG DISBURSEMENT, CORRECT SER DATA REGARDING HOUSEHOLD SIZE AND THE NUMBER IN COLLEGE TO REFLECT THEIR ACTUAL SITUATIONS.

The 1981-82 Validation Handbook indicates on pages 13 and 14 that the purpose of validating household size and the number in college is to assess the reasonableness of the original estimate. It further states that applicants should change these items during validation, "only if the estimate was incorrect at the time of application." In other words, if an applicant at the time of application expects three family members to attend college, a 3 is entered on the form. Then in September, if the applicant through validation informs the FAO that only one of the three ended up enrolling in college, the original estimate, if determined reasonable, does not have to be corrected. The same ruling would also apply to the reverse of this example.

We view this validation ruling as unwise because it not only works against the intent of the validation process, to ensure the correctness of SER data, but complicates even further the already difficult task of determining error in the Basic Grant program.

Three other reasons leading us to propose this corrective action are:

- Students and parents reported having trouble making future projections of the size of household and number in college for the BEOG application.
- Our student/parent data indicate substantial error on these two data items.
- Next to the Adjusted Gross Income, household size and number in college are two of the most critical elements in the SEI calculation formula.

4.3 IMPLICATIONS

As in Chapter 3, in this section we assess the costs, benefits, and administrative requirements of each of the preceding recommendations.

Recommendation 4-1 to institute a minimum credit requirement policy for BEOG recipients carries with it several implications. The primary administrative burden of this requirement would fall on institutional officials who would be responsible for verifying the number of credits a student earned and the level of BEOG award received (F-T, 3/4-T, 1/2-T) in a previous term(s) before making the first disbursement in a new award year. This is a more detailed and structured procedure than what is currently required to check satisfactory progress achievement by students. Once implemented, no new administrative burden would fall on the Government, since procedures now used to monitor institutional compliance with the satisfactory progress regulation could be transferred, with only slight modifications, to monitor institutional compliance with this new policy. This requirement would

impose a new kind of burden on most students since it is more rigorous, in terms of requiring cumulative academic progress, than are many institutional policies at present.

The major difficulty or "cost" of this recommendation will be up-front costs to ED in trying to get such a requirement accepted and the terminology agreed upon by the financial aid community and students. Satisfactory progress, in the words of one FAO from the Title IV Committee of the National Association of Student Financial Aid Administrators [NASFAA], "is a very volatile subject." Any attempt on the Government's part to further define satisfactory progress regulations, because it represents a threat to institutions' discretionary power, will undoubtedly meet with a groundswell of resistance that may come from legislators as well as institutions. To implement this new requirement ED will need to anticipate such resistance and will have to handle it with firmness and sensitivity. Seeking the advice and cooperation early on of key members of the financial aid community and key legislators would be advisable.

Despite early resistance, the benefits of this requirement would extend to three of the four student aid delivery system components--the Government, institutions, and students. By promulgating this requirement ED would exhibit a stronger, more clear-cut stance on what constitutes satisfactory progress and on what is expected of students who receive BEOG support to attend school, while at the same time steering clear of controversial regulations that try to define satisfactory progress in terms of

a grade point or quality point average. Monitoring institutional compliance with this requirement would be far easier and more precise than the monitoring of satisfactory progress compliance that is currently done by Title IV program reviewers. The present diversity in institutional policies for satisfactory progress and the inconsistency with which they are applied make OSFA monitoring of compliance with satisfactory progress regulations difficult.

For institutions, though more work would be required to determine eligibility, this policy would clearly define their responsibility for monitoring students' academic progress and would introduce more equity across institutions in the way students not making satisfactory progress are treated. For students the policy will require more academic diligence but will mean a consistent rule will be applied to all BEOG recipients in a consistent manner. Students will also have a clearer idea of what is expected of them.

Finally, our data show that a significant number of BEOG students drop out during the course of a term. For example, close to 10 percent of students in our sample who were enrolled full time at the first disbursement (84 percent of the entire sample) had dropped below half time or had dropped out by the beginning of the next academic term. We cannot say from our data how many have enrolled simply to receive BEOG money and not necessarily to complete courses, but we can suggest, on the basis of our experience, that this does happen. If as few as one out

of five of these students who have dropped out have intentionally abused the program in this manner and their average award is $900, then they are costing the program over $36 million. This kind of error is not calculated in Volume 1 (Findings), but the recom- mendation would indeed affect the 1.2 percent error rate reported there as well--those 1.2 percent of recipients are not in compliance with the satisfactory progress requirement as it is currently stated. At an average $900 award to each, another $25 million in net overawards could be saved by the recommendation. Total savings then could be over $60 million for action on this front.

Two other implications of this recommendation are:

- To avoid inconsistency, the same policy should probably apply to all Title IV programs.
- With transfer students, there would be greater reliance on timely and accurate information transfer between schools. A special timing allowance might be needed for transfer students.

Since this recommendation would require a regulation change and legislative approval, the likely year of implementation would be 1983-84.

Recommendation 4-2 to restructure the BEOG Payment Schedule by broadening the cost of attendance categories and grading BEOG award amounts by increments of $200 would impose a burden only on the Government for redevelopment and analysis of the impact of any new payment schedule on award distribution. One of the first analysis steps would be to build a table that reflects the current BEOG payment schedule and fill in the number of BEOG

recipients from the most current completed year who fell into each cell of the payment schedule (a cell is the intersection between the SEI and cost of attendance), then calculate what total aggregate awards would be if the payment schedule was collapsed to 6 cost of attendance categories and awards of $200 increments. Results of this calculation would be compared with actual total BEOG expenditures for that year, to determine the impact on total expenditures. Analysis would then be needed of the amount of change to individual awards. Until such an analysis, including a series of simulations, could be done, estimating a program cost for this recommendation is not possible.

Another major implication (possibly a cost) besides a shift in award distribution would be a possible incentive for institutions to structure tuition fees with a view of maximizing BEOG award amounts for their students. Again, ED would want to analyze the extent to which this might happen and to devise mechanisms to neutralize such an incentive, such as a direct and clear tie between Campus-based allocations and total BEOG recipients.

Two other implications would be:

- BEOG central system and PIMS changes to accommodate a new payment schedule
- A step function problem for students with SEIs or costs falling at the edge of each category (although other discretionary aid could be awarded to fill such gaps)

Most likely ED has considered alternatives to the current BEOG Payment Schedule before and has subsequently rejected them.

However, the benefits that would accrue from a simplified payment schedule are not insignificant. For example:

- Students could calculate their own awards.
- Institutions could calculate awards more accurately and thereby decrease institutional BEOG error.
- Fewer changes in awards due to minor cost changes would have to be made by institutions.
- In turn, the Program Information and Monitoring System [PIMS] would process fewer changes in awards.
- PIMS would require less computer space for calculation of awards.
- Program reviewers could check the accuracy of institutions' calculation of awards in a shorter amount of time.
- Because a change in cost of attendance categories would cause a significant change in the award ($200 in most cases), institutions would probably be more diligent with respect to looking for changes and making award adjustments where needed.

The approval and implementation of a new payment schedule would require regulation changes and legislative approval and this would have to follow a careful impact study; therefore, 1983-84 would be the earliest possible year for implementation.

Recommendation 4-3 calling for a mid-year Student Validation Roster similar to the one currently completed by institutions at the end of each year would create more work for both institutions and the PIMS program. Costs would be incurred by institutions in having to complete a second roster, and the PIMS program would incur additional processing costs. Additional administrative time would also be taken in prodding institutions that do not submit the roster on schedule.

On the other hand, the benefit to institutions in reconciling first term disbursements (or first- and second-term disbursements for quarter-term schools) at mid-year would be a substantial easing of the burden of making all changes on the end-of-year roster. Likewise, the PIMS staff would not be faced with a whole year's worth of changes at one time, long after the award year has ended. They would instead experience a more even work flow by receiving the bulk of award reconciliations at mid-year, leaving the second half of the year to process them. In addition, mid-year reconciliations would provide OSFA with more current expenditure data than are available under the current system for BEOG funding projections.

Cost savings that could be realized by requiring a mid-year roster are difficult to quantify. However, as stated earlier, institutions across the board would be compelled at mid-year to check for enrollment status changes and cost of attendance changes and to reconcile the effects of such changes on the levels of BEOG awards. The result should be that the aggregate amount of BEOG funds all institutions have transferred to their operating funds at the mid-year point will more closely reflect the aggregate amount that should be there based on actual cost and enrollment levels of BEOG recipients. The degree to which institutions do not reconcile BEOG award changes before the end of the year will be unknown to us until we complete our analysis of this issue during Stage Two, but several FAOs reported to our interviewers that their institutions do not reconcile award

changes and either increase or reduce a student's award accordingly until late in the year. The second element of this recommendation, adding new spaces to the validation roster for institutions to submit enrollment and cost of attendance data used to calculate expected disbursements, would also enhance ED's monitoring of institutional calculation procedures.

This recommendation could be implemented without regulatory or legislative change; however, a task force including Title IV program reviewers, managers of the PIMS program, and other ED officials would want to carefully weigh the added processing costs involved against the efficiency and cost benefits to be gained, since the first mid-year roster could closely parallel the current end-of-year roster. Implementation would be possible in the 1982-83 year.

Recommendation 4-4 to allow FAOs to recalculate SEIs and make a first disbursement while waiting for a corrected SER would not impose any major burden on any but those FAOs who exercise this option. Initially, ED would have to shoulder the issuance of guidelines surrounding this new privilege and oversee the passage of this procedure through the regulatory process. Following this, the ED Regional Offices may have to respond to more questions from FAOs on the correct use of the BEOG formula either through an information service or training programs.

The main benefit of this recommendation would be to the student in not having to wait an inordinate amount of time for BEOG funds needed to pay for tuition or living expenses. In addition,

institutions that accept the privilege would have an incentive to follow up and ensure the receipt of a corrected SER from the student since they would otherwise be liable for any overpayments.

One other implication of this recommendation has aspects of both a cost and a benefit. Students aware that institutions can recalculate SEIs may postpone making SER corrections until enrollment, thereby shifting the institutional and processor SER corrections workload to a later time in the processing year. On the other hand, corrections to SERs made with the help of an FAO may be more accurate and could cut down on the number of times a SER is returned to the central processor before a valid SER is produced.

The implementation of this recommendation would probably require a regulatory change as well as consultation with the financial aid community and, therefore, may not be feasible until 1983-84 (without a regulatory change, implementation could be accomplished by 1982-83).

Recommendation 4-5 to introduce a new processor edit to flag for validation an applicant who changes from dependent to independent status across or within award years would impose the greatest burden on the central processor, since the development of cross-year edit capability would be necessary. A minor burden would be placed on institutions because this would be an added validation requirement. Finally, some independent students may experience difficulty in obtaining a copy of their parents' tax form to comply with this requirement. In fact, Federal authority

to request a parent's tax form as a condition for award may be contingent upon the signature of an independent student's parent on the initial application form.

The benefit of this recommendation would be a new mechanism to reduce error and save program costs. It would also serve to deter students (by publicizing the possibility of validation of this item) from falsely reporting an independent status.

As stated previously, of the students in our sample who claimed to be independent on their BEOG application, 16 percent were found to be dependent upon verification of their application data. Analysis of verified dependent application data (collected through the parent surveys) for these students shows that they were overawarded by an average of $519. Recalculation raised their SEIs by an average of 972 points. For the total BEOG recipient population of 2.36 million, this error translates to an estimated $74 million in BEOG overawards. Certainly, a significant portion of this error would be cut by having a mechanism in place to verify with hard documentation that an applicant is truly independent.

The implementation of this recommendation would depend on how quickly the processor could develop a cross-year edit capability. We understand that the current BEOG processing contractor is nearing completion of a study on the costs and specifications for implementing these edits.

Recommendation 4-6 to require students who are validated (either by ED mandate or by institutions) to correct household

size and the number in college to reflect the actual situation at the time of enrollment would impose a minor burden on the processor, the institution, and the student. The central processor would receive more corrections, institutions would have to require students to correct these items, and more students would experience a delay in BEOG disbursements (unless Recommendation 4-4 is implemented) awaiting receipt of a corrected SER.

Nevertheless, the benefits of this recommendation should outweigh the administrative burdens just described. For one, it will bring the actual process of validation more in line with the intent of validation--to ensure that BEOG awards are based on correct applicant data. In addition, it should reduce the total amount of BEOG program error and would most likely result in net cost savings in program expenditures.

Analysis shows that 22 percent of our parent/student sample wrongly estimated household size for 1980-81 on their applications, and 19 percent misprojected the number in college. The effects of these misestimates are revealed through marginal error analysis of our data. Holding all other SER items constant and discounting the interactive effects of verification, an average $14 per recipient, or potentially $33 million, could be saved by correcting household size through verification. In addition, correcting the number in college just prior to award would reduce overawards by an average of $6 for a potential program saving of $14 million.

Verification of household size and number in college could be done in several ways. A notarized statement signed by parents and students, similar to the current validation statement, could be required. However, if the fourth item of Recommendation 3-7, changing the application data item from a projected household size to the number of exemptions taken for the previous year, is implemented, a 1040 will verify the item. As an alternate method for verifying the number in college, ED could print a standard form to be completed by a registrar of the other family member's institution and stamped with the institution's seal certifying the student's half-time to full-time enrollment. Upon completion, the form would be returned to the financial aid officer verifying this SER data item prior to disbursement.

CHAPTER 5

PROCESSOR RECOMMENDATIONS

As background for the chapter on improving Basic Grant processing, we present Figure 5-1, which outlines the flow of processor operations. The student sends the application to a central or satellite processor. At the latter, the data are cleaned then forwarded to the central processor thenceforth to be treated like applications originally sent there. At the central processor, the student's BEOG eligibility is determined and the SER produced. If rejected, the applicant must make corrections on the SER and resubmit it, but if the SER is valid and the student is eligible, the form is to be carried to the institution to initiate the student's award. For more details, the reader may refer to "Quality Control in the Basic Grant Processing System" (Advanced Technology, June 24, 1981).

5.1 THE PROBLEMS

Our surveys of the central Basic Grant application processor and the satellite Multiple Data Entry [MDE] processors uncovered two dominant emphases: getting applications into the computer processing system for standardized edit checks and record keeping as quickly as possible, and meeting internal and OSFA-dictated QC standards rather than surpassing those standards. We found these operating themes work moderately well to control processor error. Processors are not a critical locus of BEOG error (see Chapter 2).

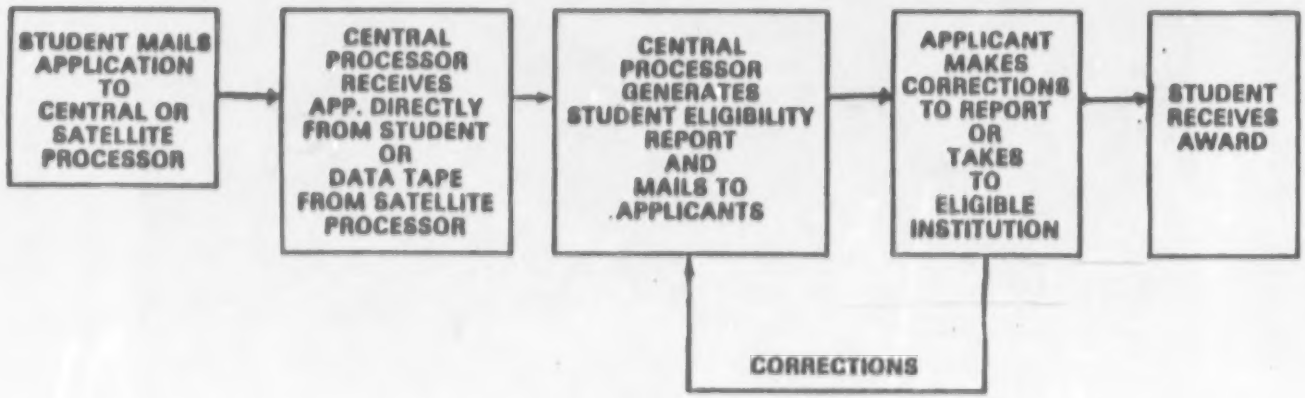
STUDENT MAILS APPLICATION TO CENTRAL OR SATELLITE PROCESSOR
CENTRAL PROCESSOR RECEIVES APP. DIRECTLY FROM STUDENT OR DATA TAPE FROM SATELLITE PROCESSOR
CENTRAL PROCESSOR GENERATES STUDENT ELIGIBILITY REPORT AND MAILS TO APPLICANTS
APPLICANT MAKES CORRECTIONS TO REPORT OR TAKES TO ELIGIBLE INSTITUTION
STUDENT RECEIVES AWARD
CORRECTIONS

FIGURE 5-1

OVERVIEW FLOW CHART
OF BEOG PROCESSOR OPERATIONS

We nevertheless identified six minor or potential problem areas where improvements could be made: delays in the receipt of an SER; imperfect control of production quality; duplication of effort; excessive costs; inadequate control of applicant error, fraud, and abuse; and inadequate reporting for management decision-making. In each case, we believe the problem and the solution are the joint responsibility of ED and the processors.

5.1.1 Delays in the Receipt of an SER

Some applicants find themselves unable to obtain a valid SER because their application data cannot pass the computer edits that screen data for the calculation of an eligibility index. Some delays occur in central processing of the original applications themselves. These problems can occur because of machine failures or logjams in the processing flow such as those caused by the requirement that school identification codes be attached manually to each non-MDE-originated application before processing. Application processing delays of a different sort occurred in the 1978-79 and 1980-81 processing years. In each case, regulatory and administrative changes within the Federal Government led to delays in the processing of applications and the receipt of valid SERs. These delays were largely out of the hands of both the applicants and the processors.

Delays can also occur after the initial SER is mailed. Once a student's original application has been rejected, the average number of subsequent transactions required to obtain a valid SER

averages about two. Applicants rejected on their original applications have to wait over a month on the average before receiving another official SER. Reasons for such problems may include sluggish corrections processing, difficult-to-understand correction instructions from the central processor, and difficulty in reaching central processor phone personnel for answers to application questions.

5.1.2 Imperfect Control of Production Quality

Among the problems Advanced Technology noted on our processing surveys of this spring were a lack of clear and precise definitions of the QC responsibilities of the central and MDE processors, a lack of ED control over MDE processor activities equal to that over the central processor, a lack of clear and precise reporting standards for the central processor, and a lack of complete data-security procedures at the central processor. Together, these problems add up to a less than optimal level of control by ED over processing.

5.1.3 Duplication of Effort

The waste and rework associated with duplication of effort in the processing component can come from two sources: applicants having to submit data more than once or processors having to process data more than once.

In each case, the problem lies largely in the rejection of applications due to students' failure to read and understand instructions or to computerized edits that catch students whose

data appear wrong but are in fact accurate. A second source of duplication lies in the internal processor procedures for assuring data quality. This duplication is for the most part defensible, but efforts to strengthen QC procedures at the "front end" of the process (e.g., tighter MDE edits) would obviate the need for some later checks. A third source lies in the relations between OSFA and the central processor: there have been both duplication of effort and gaps in the quality control and analysis procedures due to a lack of clarity in the central processing contract.

5.1.4 Excessive Costs

In our examination of costs, we included any nonoptimal use of resources, under the assumption that timing problems and imperfect staff and machine configuration translate into avoidable drains on Basic Grant maintenance funding. Of course, virtually any processing operation may be accused of having excessive costs, since the "proper" level and definition of costs are matters of values rather than fact. Nevertheless, certain cost-ineffective areas of processing stood out in Advanced Technology's processor survey: manual steps that logjammed the central processor for as much as three days per application, unclear communications between ED and the central processor that led to a waste of time on both sides, inadequate and delayed ED responses to system problems, vague or over-detailed processor reporting formats, and imprecise targeting of application edits and validation criteria for control of error, fraud, and abuse.

5.1.5 Inadequate Control of Applicant Error, Fraud, and Abuse

In the end, controlling application fraud and abuse efficiently is a major subset of cost-effectiveness in application processing, the problem just discussed. The most critical shortcoming of central processing in this area is the imprecise standards for initiating, evaluating, changing, and deleting edits and validation criteria in the processing system. A second area for improvement is in the accessibility of applicant data to OSFA management.

5.1.6 Inadequate Reporting for Management Decision-Making

A number of the problems identified above are closely linked to the fact that processor reports for OSFA management decision-making are inadequate. The nature and format of these reports are determined by ED working with the processors, but we believe that neither party is well served by the present reports. The definitions of "errors" are too often unclear; the monthly reports are too bulky and detailed; and processor-reported data are often not compared with historical or forecast patterns, (even when they are, they are not adequately highlighted for developing problem areas). Such reporting shortcomings can delay and misdirect OSFA management decision-making.

5.2 NEAR-TERM RECOMMENDATIONS

Three themes emerged from our survey of the problems in the processing of Basic Grants:

- Rationalizing internal processor procedures
- Improving management decision-making tools
- Improving the efficiency of communications with students

Figure 5-2 relates these themes to the six problems just identified. Rationalizing internal processor procedures to improve timeliness, integrity, and control could help solve the problems of SER delay, imperfect production control, duplication of effort, and excessive costs.[1] Improving management decision-making tools could help solve the problems of SER delay, lack of production control, excessive costs, inadequate control of applicant error, fraud, and abuse, and inadequate reporting to management. Improving the efficiency of communications with students through greater attention to clarity and accessibility could likewise effectively address the problems of SER delay, inaccurate SEI calculations, inadequate control of applicant error, fraud, and abuse, and inadequate reporting to management. The following are 13 specific recommendations to meet the 3 themes just enumerated.

5.2.1 Theme #1: Rationalizing Internal Processing Procedures

We noted in processor operations some procedures that slow or threaten the integrity of processing procedures. The following six recommendations address the internal workings of the central and MDE processors.

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[1]We use the term "rationalizing" to refer to making more effective use of resources at processors and ED. That is to say, resources could be used more rationally.

THEME	PROBLEM AREAS					
	DELAYS IN THE RECEIPT OF AN SER	IMPERFECT CONTROL OR PRODUCTION QUALITY	DUPLICATION OF EFFORT	EXCESSIVE COSTS	INADEQUATE CONTROL OF APPLICANT ERROR, FRAUD, AND ABUSE	INADEQUATE REPORTING FOR MANAGEMENT DECISION MAKING
1. Rationalizing internal processor procedures	X	X	X	X		
2. Improving management decision-making tools	X	X		X	X	X
3. Improving the efficiency of communications with students	X				X	X

FIGURE 5-2

RELATIONSHIPS BETWEEN PROBLEM AREAS IDENTIFIED AND THEMES FOR PROCESSOR CORRECTIVE ACTIONS

RECOMMENDATION 5-1: SERIALIZE EACH INDIVIDUAL BEOG APPLICATION AT THE MAIL RECEIPT STAGE

Main Problem Addressed

- Imperfect control of production quality

Other Problems Addressed

- Delays in the receipt of an SER
- Duplication of effort

Currently, application forms are serialized for processing only as they enter the machine edit phase. Earlier in the process, forms are weighed in bulk to plan processing volumes. Such procedures are satisfactory for volume estimates but inadequate from a strict QC perspective. There should be no chance for lost forms from mail receipt through the cursory edit stages. In addition, such earlier serialization would allow more accurate estimates of total turnaround time for forms (currently, these are achieved by combining separate pass-through estimates from various system components).

The process could be initiated in several ways. All Basic Grant applications could be serialized and that number could be used to track an application. The applicant's social security number, or an assigned number if it is missing, could serve as the key. Most simply, applications could be sequentially stamped with a batch number upon receipt. The Pennsylvania Higher Education Assistance Agency [PHEAA] has an exemplary process of this sort which is tied into its on-line system that warrants closer study.

RECOMMENDATION 5-2: EVALUATE ALTERNATIVE PROCEDURES FOR LINKING SCHOOL IDENTIFICATION AND APPLICATION PROCESSING

Main Problems Addressed

- Delays in the receipt of an SER
- Excessive costs

For the approximately 15 percent of BEOG applicants who do not enter the system by way of an MDE processor, there is a delay in processing of their applications caused by the need for visual lookup of the schools to which the applicants state their data should be sent. This "vendor code" lookup procedure at the central processor requires as many as 3 extra days of processing time for these approximately 750,000 forms, so revising this procedure could appreciably decrease turnaround time for BEOG applications. There are 3 alternatives to the current process. First, have the students look up the vendor codes themselves, as the MDEs currently require for their aid forms. Second, drop the school ID entirely. Finally, institute an alternate means of target school identification.

The second alternative seems preferable at first glance. The school rosters which derive from these codes are of only marginal precision (students often do not attend the schools they name on the form) and are viewed as such by all parties to the system, including ED, which uses the data for management information purposes. Even as flawed as the current roster system is, however, FAOs tell us the rosters are significant administrative tools on some campuses. Accordingly, the third alternative

becomes more appealing: institute a more precise assessment of student enrollment choice, based on data from later in the enrollment cycle, to the roster system, with a multiple choice question on the BEOG application form for preferred school type, region, and so forth serving for ED reporting needs early in the cycle. The problem with this proposal lies in its timing and cost: many schools that use the roster information like to have it early to plan aid packages and to track down unusual cases, and the initiation of processor contacts with applicants weeks or months after the final SER is produced could lead to problems in changed addresses and increased mailing and processing costs.

We propose that ED undertake a study of advisability of adopting one of the three proposals just outlined. A fourth option to be considered simultaneously is, of course, maintaining the present system. We do not think such an analysis would be costly or time-consuming.

RECOMMENDATION 5-3: INCREASE THE SECURITY PROCEDURES FOR HANDLING TRANSFER OF DATA BETWEEN SITES

Main Problem Addressed

- Imperfect control of production quality

At two points during the processing it is necessary to transfer application data between sites: when applications are sent off-site for keypunching then returned to the processors and when application data are sent by tape from an MDE site to the central processor. During the course of our site visit it was

noted that tapes sent to the central processor, Systems Development Corporation [SDC], by their data entry subcontractors and by MDE participants were being returned without being erased.[1] This presents the problem that tapes with confidential BEOG data could migrate into uncontrolled processing activities and environments. We recommend that all data transfer and data entry tapes be strictly controlled and accounted for.

The implementation of this recommendation is relatively simple. First, there should be a limited number of tapes utilized in the data transfer process and they should be owned by the processors. This will ensure a precise accountability of all the tapes and make enforcement of the controls more feasible. Second, a log should be kept which details the use of the tapes, including contents. After the tape has been utilized in production and before it is released for use off-site, it should be erased.

RECOMMENDATION 5-4: PRECISELY SPECIFY QUALITY CONTROL REQUIREMENTS IN THE CENTRAL PROCESSING CONTRACT.

Main Problems Addressed

- Imperfect control of production quality
- Excessive costs

Other Problems Addressed

- Inadequate control of applicant error, fraud, and abuse
- Duplication of effort

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[1]There were some indications that tapes were not being returned at all.

There has been some question among ED and central processor staff as to precisely which quality control procedures are required by contract and which are not required. The lack of clarity focuses in the main on those kinds of activities which are not directly related to production processes. For example, everyone agrees phone call completion rates should be closely monitored, but whether studying and eventually undertaking corrective actions to decrease the number of phone calls is part of the contract or not is unclear. Everyone agrees such actions are important, but the locus of organizational responsibility for such activities should also be agreed upon and formalized as soon as possible.

RECOMMENDATION 5-5: DEDICATE MORE ED STAFF TIME TO ON-SITE MONITORING OF THE CENTRAL AND MDE PROCESSORS.

Main Problems Addressed

- Imperfect control of production quality
- Inadequate reporting for management decision-making

Other Problem Addressed

- Delays in the receipt of an SER

Large-scale Government contracts away from the Washington, D.C., area are commonly inspected on-site by Government officials on a frequent and regular schedule. The absence of such an arrangement in BEOG processing works to the detriment of both ED and the contractor. The private contractor would benefit from having quicker action on requests to ED and clearer ED processor resources and constraints. ED would benefit from each of these

factors and would also be better able to monitor contractor performance. Care should nevertheless be taken to clearly specify in advance the details of the arrangement (e.g., the chains of command and the individual areas of responsibility).

In a similar vein, we urge ED to begin regular monthly on-site inspections of the various MDE operations. These operations account for approximately 85 percent of the application processing but are monitored even less frequently and intensively than central processor operations.

RECOMMENDATION 5-6: TIGHTEN MDE PRE-EDITS.

Main Problems Addressed

- Inadequate control of applicant error, fraud, and abuse
- Imperfect control of production quality
- Duplication of effort

Other Problems Addressed

- Delays in the receipt of an SER
- Excessive costs

The importance of the edits taking place at MDE sites prior to entry into the BEOG processing system cannot be underestimated. As is, these are basically data-formatting edits, which are in turn rechecked by the central processor. An analysis showed the requirements for these edits are too restricted in the scope of their error control activities. They create waste and rework at the central processor that could be avoided. For example, at SDC a form pulled from the final SER mailing queue contained the phrase "BEOG Applicant" where the name and address should have

been keypunched. Virtually no other application identified data were printed on the entire SER, and understandably it had numerous edit messages. This application, which originated at the College Scholarship Service [CSS], had violated no QC requirements until it was detected and stopped at the SDC mail room. At this point, all outgoing envelopes are scanned for complete address information.

Some attention in MDE pre-edits to substantive as well as formatting factors would undoubtedly help reduce these problems. Unfortunately, we have no hard data on the extent of such problems, and the costs and benefits of major expansion of MDE edits would naturally have to be examined closely. But for the particular kind of problem just described, a requirement that application data processed at MDE sites have a usable name and address seems a straightforward starting point.

5.2.2 Theme #2: Improving Management Decision-Making Tools

The second theme that arose from our surveys was the existence of several barriers to effective OSFA decision-making regarding processor operations. These barriers include both reporting problems and problems in processing flows, as highlighted in Figure 5-2. The following are four recommendations addressing the problems in decision-making tools.

RECOMMENDATION 5-7: JUSTIFY IN DETAIL THE NEED AT ED FOR EACH PROCESSOR REPORT CURRENTLY REQUIRED BY CONTRACT.

Main Problems Addressed

- Inadequate reporting for management decision-making
- Excessive costs

The enormous quantities of information flowing from the processor to ED, and the generalized belief that a comprehensive reporting needs assessment is imperative, make this an unsurprising recommendation. But the task is not as simple as it sounds. In the absence of an on-line Management Information System [MIS] at ED, producing a volume of information greater than called for by immediate needs may be advisable for meeting unexpected requests from Congress or others. With an MIS, however, this volume could be decreased.

Whatever the resources now or soon available, an exhaustive survey of immediate and potential users' needs is a necessary first step to improvement. We understand SDC is working on a preliminary survey of these issues now, through the "IMAP" project. A second necessary step is the development of extensive individualized packaging of reports for ED staff, so none receives reports not regularly used.

RECOMMENDATION 5-8: ESTABLISH AT ED AN ON-LINE MONTHLY APPLICANT SAMPLE DATA BASE.

Main Problems Addressed

- Inadequate reporting for management decision-making
- Inadequate control of applicant error, fraud, and abuse

Other Problem Addressed

- Excessive costs

Useful analysis of system performance requires the establishment of a relatively current applicant sample data base for use at both the central processor and ED. The flexible response capability of such a data base would not only allow the volume of regular hard copy reports to decrease (see Recommendation 5-7) but also increase the chances for quick and well-targeted corrective actions due to more complete and timely information. In addition, the new data base would facilitate quick turnaround response to congressional and public informational needs and would help in evaluating potential long-term system changes.

Critical to this process is producing representative applicant profiles that reflect the overall applicant population and/or are based in stratified samples of certain segments of that population. This will require a skilled statistician who understands the applicant population characteristics. To initiate the on-line system will require a limited degree of hardware and software support and some training for OSFA staff. The software could utilize one or more of the standard statistical packages (SPSS and SAS). After implementation, ED should have ongoing access to someone knowledgeable in sampling, weighting, and multivariate techniques, in order to profit optimally from this recommendation.

RECOMMENDATION 5-9: USE MORE APPROPRIATE AND MORE CLEARLY DEFINED ERROR CALCULATIONS IN REGULAR CENTRAL PROCESSOR REPORTS TO ED.

Main Problems Addressed

- Inadequate reporting for management decision-making
- Imperfect control of production quality

Other Problem Addressed

- Excessive costs

The definition of "error" is not as straightforward as it might seem. On data entry from the application form, error can be stated at the level of keystroke, a data item, or the form itself. In addition, an error can be in a critical field or a noncritical field. On phone call completion rates, an error can be a call not reaching an SDC operator (due to inadequate line capacity) or it can be a wait of over 10 minutes once the call is into the SDC phone system. It also can be some combination of access and time. Clearly, reports that errors are not greater than 1 percent in data entry or greater than 15 percent in phone completion are not sufficient as ED QC guidelines for central processor activities. Similarly, the use of undefined verbal terms for QC reports (e.g., "acceptable") should be avoided. Both sides need to agree upon precisely what is to be included in reports. Otherwise, the reporting and quality control requirements are simply not very meaningful.

These definitional efforts will not be easy by any means, but they are fundamental to quality improvement efforts in Basic

Grant processing. As a beginning, we recommend (1) data-entry error rates should be tallied and reported quantitatively at each of the three levels (keystroke, item, and form), (2) phone call completion rates should likewise be tallied and reported quantitatively in both access and time formats, and (3) other error prone components of BEOG processing should be similarly reported in all quality-related areas.

RECOMMENDATION 5-10: INCLUDE IN ALL REGULAR PROCESSOR REPORTS TO ED A CLEARLY UNDERSTOOD "SYSTEM-ALARM" CAPABILITY.

Main Problems Addressed

- Inadequate reporting for management decision-making
- Excessive costs
- Delays in the receipt of an SER

Other Problems Addressed

- Imperfect control of production quality
- Inadequate control of applicant error, fraud, and abuse

Recommendation 5-9 covered the what of processor reporting. Now, Recommendation 5-10 addresses the how. A number of reports regarding processing go to ED, ranging from bulky, computer-generated management and national statistics to typewritten monthly and weekly status reports. Most of the information contained in these reports is valuable, but the clarity and immediate usefulness of the reports vary. A clearly understood "system-alarm" capability is mandatory. By that, we mean the reports should contain obvious visual cues to alert managers at ED to problems in the system (e.g., phone completion rates lower than planned).

A three-step process should be followed. First, whenever feasible, present both current and cumulative data, and present them next to useful comparative data. Comparative data should include both historical data and forecasted data for the relevant period. Second, develop a method for highlighting data that are well out of their historical or forecasted range. An asterisk by such data might suffice. Another suggestion that might facilitate this process would be to increase the use of graphics in reporting, with linear boundaries for expected behaviors. Third, provide ED management with explanatory material regarding all out-of-range data and data that are progressively approaching being out of range.

Clearly, a full-range MIS cannot be designed in a short time period. As an interim measure, however, regular hardcopy reports from SDC could be modified for 1981-82.

5.2.3 Theme #3: Improving the Efficiency of Communications with Students

Processor communications with students can be of both the "carrot and stick" variety. In other words, they can be solicitous or threatening. They can also be unclear. The three following recommendations represent an attempt to address the issues of delays in processing, inaccuracies in processing, fraud and abuse in obtaining awards, and inadequate reports for management decision-making by encouraging more effective and useful communications with students.

RECOMMENDATION 5-11: UTILIZE AT ED SUMMARY CORRESPONDENCE DATA BEING NEWLY PRODUCED AT THE CENTRAL PROCESSOR.

Main Problem Addressed

- Inadequate reporting for management decision-making

For years the correspondence sector of processing was rather invisible from an ED management information perspective. There was no attempt to comprehensively summarize the volume and kinds of letters that went out to students. Now SDC is in the process of installing equipment that will facilitate not only their own correspondence production but also the ED management decision-making regarding problems in the application form, delivery system, and so forth. For example, when a composited letter regarding some application problem has achieved enough volume to become a form letter at SDC, ED should be made aware of the situation in order to determine how to address the particular growing problem. In effect, student needs are reflected through those letters. SDC should therefore place detailed data on correspondence activities in its reports to ED (e.g., the Monthly Summary Reports to management), and the material should become a standard element in ED decision-making.

RECOMMENDATION 5-12: IMPLEMENT SYSTEMATIC QUANTITATIVE CRITERIA FOR THE INITIATION, EVALUATION, AND MAINTENANCE OF EACH COMPUTE EDIT AND VALIDATION CRITERION.

Main Problems Addressed

- Inadequate control of applicant error, fraud, and abuse
- Inadequate reporting for management decision-making

Other Problem Addressed

- Delays in the receipt of an SER

A number of recent attempts have been made to evaluate existing edits and validation criteria (PECs) and to improve upon them. ED and SDC should immediately institute an ongoing analysis and reporting system for this purpose. As a minimum, we propose that each edit and PEC be compared to others on the basis of (1) the proportion of applicants making subsequent corrections; (2) the effective SEI change resulting from those corrections; (3) the proportion of applicants not making any subsequent corrections but verifying the application data; (4) the proportion of applicants not making data changes and not reentering the system; (5) the proportion of applicants initially rejected or flagged for validation who are flagged or rejected again after making changes on the initial application; and (6) the proportion of unduplicated rejects out of all rejects (for edits only). These data will aid the assessment of SEI/award significance and needless applicant hassles associated with each edit and PEC and thereby facilitate the maintenance, change, and replacement of the edits and PECs.

Work previously done on these topics at ACT, Advanced Technology, SDC, and elsewhere provides a good starting point. Indeed, transferring elements of those analyses to standard procedures should not be difficult. There are, of course, complexities in the approach (e.g., SEIs usually cannot be computed for rejected data without making heroic assumptions), but the task is

not only doable but absolutely necessary. The current edits and PECs contain a measure of duplication and inefficiency that could be straightforwardly addressed and ended by systematic, comprehensive analysis and reporting tactics.

The importance of this recommendation grows when one considers the long-term future of OSFA programs. Current options being considered at OSFA include the validation of certain Campus-based aid recipients. Many of these students would not have received Basic Grants because of ineligibility. Validation criteria would have to be expanded to include a population that is financially better off.

RECOMMENDATION 5-13: SYSTEMATICALLY ASSESS APPLICANT SATISFACTION WITH PROCESSING.

Main Problems Addressed

- Inadequate reporting for management decision-making
- Delays in the receipt of an SER

Basic Grant processing has as its ultimate "customer" the applicant, yet few systematic attempts are made to find out what the student thinks about the system. An ongoing effort to find out would give student applicants a chance to let off steam (if there is any), inform the processor and ED about apparent and nonapparent problems in application forms and processing, and help solve minor delays in individual applications. We suggest the use of regular postcard surveys of applicants in various stages of processing, perhaps sampling 5 percent of those who are in history corrections for over 2 months, 1 percent of those who

achieved an SEI on the first try, 20 percent of those having more than 3 rejects, and so forth. The postcards might include on a trial experimental basis an option for the applicant to include a telephone number for the processor to call to facilitate processing that applicant's data (processor calls to applicants are not currently allowed). The results of these tactics might very well lead to a more responsive, flexible, and successful processing system.

5.3 IMPLICATIONS OF THE RECOMMENDATIONS

In the following section, we review the costs, risks, and benefits involved in each recommendation and discuss their timing, staffing, and legislative implications. Because the processor component, unlike the applicant and institution components, is small and self-contained and is under contractual agreements with ED, implementing corrective actions is a more straightforward task. Accordingly, we can estimate more precisely the time and levels of effort involved in the recommendations for this component.

Recommendation 5-1, to change central processor procedures to allow tracking individual applications from entry, entails estimated costs as follows: one to two analysts over two months for establishing system specifications and report requirements; one to two analysts over another month for assisting in software modification and development; and two programmers for two to three months for various system and reporting implementation and

testing tasks. One analyst might also be required to monitor initial operations of the system. Implementation could take place in early winter just before new applications begin to arrive in a processing year. There are few risks to processing from the recommendation.

The specific benefits from this recommendation come in reduced chances for lost or delayed applications, enhanced assurance of data privacy, and better tracking of volumes and flows for production timeliness and quality. Overall, we believe both the short-term costs and short-term benefits are moderate, but over the long term the benefits will far outweigh the costs. No new regulatory or legislative requirements are foreseen.

Recommendation 5-2, to study the alternatives to current school code procedures for application data, is a relatively low cost matter, involving the use of a systems analyst, a management analyst, and an item-survey specialist over one to two months, plus possibly a programmer for one to two months should his or her services be needed for system development, implementation planning, and tests.

The benefits would come in fewer delays in processing BEOG applications and greater control over processing costs. The risks of this recommendation are largely political and flow from the results of the recommendation to study, not the study itself: some institutions may oppose the eventual resolution of the problem. Overall, the benefits of at least studying the issue are moderate while the costs are low.

The study should begin as soon as possible because the lag time to implementation of some of the proposal alternatives is long. For example, any survey of students after their receipt of a valid SER would require survey design and clearances before a processing year began, and any use of institution codes would require changes to the form, additional mailing expenses for a codebook, and possible additional phone lines for answering students' questions. New regulatory clearances would be necessary for changes to the data collection and data dissemination aspects of processing.

Recommendation 5-3, calling for increased security procedures for handling of data between sites, has low costs: one systems analyst working less than one month to review data handling/transfer procedures, write new procedures, and monitor implementation. The risks to processing of this recommendation would be very low, and the benefits in terms of privacy protection would be moderate. No new regulatory or legislative actions would be required. In fact, current practices may be violating Federal regulatory mandates. The timing for implementing the recommendation is flexible as to the time of year, but we do believe a near-term start is advisable.

Recommendation 5-4 calls for precise specification of quality control requirements in the processing contract, a need best met by ED staff discussions in the very near term. The costs are the time it will take for ED staff to delineate the precise BEOG QC requirements for the central processor, the MDE contractors,

and itself; the time and money it will take for ED to confer with processor staffs over the detailed requirements; and the time and money it will take to come to final legal and financial contract terms with the central processor after broad outlines have been agreed upon. These moves would have to be concluded by the time an existing contract was ending. All told, we estimate two months for ED to specify its QC requirements for central processing and two months for discussing with the processor and finalization of contract terms. We estimate the processing risks involved to be low.

The benefits, as discussed earlier, would include clearer definition of ED and processor responsibilities and the consequentially improved use of processor and ED resources. These benefits are moderate to high, and they clearly outweigh the costs in both the short and long term. What is more, we foresee no new regulatory or legislative requirements.

Recommendation 5-5, which proposes intensified on-site ED processor monitoring, wil require moderate costs for planning, implementation, and operation. We estimate it will require one analyst one month to determine duties, protocols for inspections, areas of proprietary information, responsibilities, and reporting arrangements; one GS 12-13 monitor either for more frequent central processor visits (including travel costs) or for permanent on-site placement; and one GS 12-13 monitor for periodic inspection of CSS, ACT, and PHEAA sites (including travel costs).

The benefits of the recommendation will come in improved responsiveness and control for both ED and the processors, leading to better production quality and timeliness. The benefits for this recommendation easily outweigh the costs, but both are ongoing and moderate to large in scope.

The timing of implementing the recommendation for the central processor should be roughly as follows: one month for analysis of duties, reporting arrangements, and so forth (see the previous page); two to three months for candidate selection; two to three months for relocation if that option is chosen; and one month for familiarization. The central processor monitor should be fully trained and ready to work by the time a new processing year begins in January. The implementation of intensified MDE visits is much more straightforward: it should take only one to two months after candidate selection.

We foresee no necessity for regulatory or legislative change due to this recommendation, but the contracts with the processors would necessarily have to be modified.

Recommendation 5-6, calling for tightened MDE edits, will require one to two analysts for two to three months to analyze the scope and effectiveness of existing MDE edits and make recommendations, two programmers for one to two months to change and test MDE edits at each MDE site and MDE pre-processing checks at the central processor site, and one to three months of ED time to modify existing MDE contracts and regulations as necessary.

The benefits would be a better knowledge of the extent of "waste processing" at the central processor, reduced costs for that waste, and reduced duplication of effort by processors and students. The costs of this analysis and implementation are small to moderate, and the potential benefits are moderate to large, since 85 percent of all BEOG applicants originate at the MDE sites.

Some regulatory and contract changes might be required for implementing the recommendation, so work on tightening edits should begin at least six months in advance of the start of a new processing year.

Recommendation 5-7, for ED justification of all processor reports, will require two to three months for ED self-analysis, led by a staff member or consultant familiar with survey/item design and management information systems. Some preliminary steps have already been taken by ED in conjunction with the central processor. ED will need to make decisions on report distribution within that time frame and initiate joint implementation efforts with the central processor over the next two months. Implementation of new reporting formats and distribution should coincide with the start of a new processing year. ED should continue over those and subsequent months to consider future automation of the system and develop general specifications (see other recommendations on reporting in this chapter). No short-term regulatory or legislative changes will be required for this recommendation.

The benefits will come in decreased costs and numbers of reports for various Federal managers and staff, tailoring of reporting for those peoples' individual needs, and solid planning for future reporting improvements utilizing electronic technology. The benefits of this recommendation are moderate to large and the costs are small, moderate, and short-term. After nearly a decade of incremental changes to BEOG reports and report distributions, few if any ED staffers know who uses which reports for what, so the case for this recommendation is strong.

Recommendation 5-8, calling for the establishment of an on-line monthly sample data base at ED, will require a one-month feasibility survey of ED's current and forecast information needs and staff capabilities, cost limitations, and equipment availability; two to three months for designing the system and specifying required equipment and software; three to four months for development; two to three months for implementation and testing; and one month for training of Government personnel in programming, sampling, and analysis. A full-time team of two analysts and two programmers could accomplish these tasks. The activities should all be complete prior to the beginning of a new processing year. The risks come in inadequate training of personnel, inadequate equipment or software responsiveness to the deadline-oriented environment of OSFA analysis, and inaccurate sampling or design leading to inaccurate conclusions about application patterns. These risks are significant and can be avoided only by total ED dedication to doing the job fully and correctly. With

only half a commitment from ED, OSFA could be saddled with a costly white elephant of little use to management.

The benefits of this recommendation for management actions and forecasts far outweigh the estimated moderate level of costs, however, assuming full ED commitment and no regulatory or legislative changes.

Recommendations 5-9 and 5-10, which suggest that ED and the central processor cooperate to improve error calculations, definitions, and reporting for QC reports, will together require three analysts working four to six months on analysis of the problem, then one month designing the improved reports, and one month implementing the reports. These low costs, and the risk of controversy over the contractually specified definitions of error, are far outweighed by the high benefits of better ED control of production quality, better reporting to ED, better cost control, and more timely processing.

No regulatory or legislative changes will be necessary, but some contractual modifications may be required. The most appropriate way to introduce a new system of measurement and reporting is via a series of trial runs on older data, if possible, prior to the start of the system.

Recommendation 5-11, calling for ED to utilize the summary correspondence data now being produced at the central processor, is not likely to cost much. The design of effective correspondence report formats for ED and the implementation of those reports could be accomplished in one month by an analyst and

could be implemented at any stage in the processing year (although, as always, a start of a new processing year is preferable for new kinds of reporting for comparability purposes within a cycle). The benefits would be small to moderate, and no regulatory or legislative changes would be required.

Recommendation 5-12 calls for implementing systematic quantitative criteria for the initiation, evaluation, and maintenance of each compute edit and validation criterion edit. The determination of appropriate criteria via analysis of application data and review of previous reports on this topic would require one senior analyst and one junior analyst about two months to complete. The specification and implementation in the fall development process for the forthcoming processing year would require another two months of a system analyst: current PECs and edits would be revised, deleted, or maintained and new edits added, as advised by the quantitative criteria devised.

The benefits of these efforts would be more efficiently targeted control of applicant error, fraud, and abuse and clearer, more useful reports to management. These important benefits would easily outweigh the costs, particularly over the longer term, after implementation of the methods is complete and current edits are revised appropriately. No legislative or regulatory changes are foreseen, although contractual modifications might be necessary for the central processor's increased workload in starting up the effort.

The final recommendation, Recommendation 5-13, calls for assessment of applicants' satisfaction with their experiences in the processing system. The startup costs for this action are moderate and include the use of a skilled survey analyst and an experienced BEOG manager/analyst for three months in conceptualization and design of the survey (e.g., sample sizes, items, medium), and one month for the final implementation of the survey, including user manuals for processors and OSFA. The implementation should be phased to precede the start of a new processing year, and allowance should be made for the possible need for Federal clearances for data gathering. We foresee no need for new regulations or legislation at this time, but there would have to be some kind of contract modification or task order for the central processor or a contract award to another organization, if the survey is not to be conducted by OSFA.

The risks involved in this recommendation could be substantial. Students may take surveys as official, personalized Government communications and use them incorrectly for making corrections to their data. Alternatively, they may refuse to participate for fear of repercussions from negative comments. Similarly, they may expect some personalized attention from "letting off steam" and not receive any. In sum, the design of the new forms of communications with students would have to take into account the potential dangers as well as rewards of such contacts. We believe these risks can be overcome by careful planning.

The benefits will be greatly improved and increased information for OSFA decision-making regarding students' experiences in applying and in processing and potentially fewer delays in students' receiving their SERs. A specific major benefit might come in information regarding the clarity of the application instructions and computer edit comments. The short-term benefits may not outweigh the costs, which could be moderate, but over the longer term we believe the satisfaction assessment procedure would be well worthwhile. After the establishment of the system and its use in a full processing year, its benefits should be compared to costs and the survey system expanded or shrunk accordingly.

CHAPTER 6

INTERRELATING THE VARIOUS MECHANICAL RECOMMENDATIONS

Each of the three preceding chapters has presented mechanical action recommendations for a particular non-Federal component of the BEOG delivery system. These recommendations were based in broad, problem-solving themes for the respective components. What is now necessary is a consideration of how these themes may relate to each other <u>across</u> components and how they will affect activities in the delivery system component we have not considered, the Federal Government.

Figure 6-1 presents the general contents of this chapter. In some cases, a theme for one component has little or no effect on other components. For example, certain aspects of rationalizing internal processor procedures, such as having the processor scratching all tapes sent back to MDE and keypunch sites, have minimal effect on the day-to-day realities of processing as seen from the institutional, applicant, and Federal Government perspectives.

Assessing the effects of those themes that do affect other system components is the major purpose of this chapter. It should be stressed that this chapter focuses on how recommendations for certain components change the activities in various other components. It does not elaborate upon the benefits and costs of the recommendations for other components, nor does it repeat the earlier analysis of the impacts of a recommendation from one component on that <u>same</u> component.

CORRECTIVE ACTION THEMES	APPLICANT AND APPLICATION	INSTITUTIONS	PROCESSORS	FEDERAL GOVERNMENT
APPLICANT AND APPLICATION COMPONENT				
1. Asking the applicant to prove need	----------	Reduced validation load	Expanded cursory and computer edits, greater corrections and correspondence burden	Reduced back-end quality assurance load
2. Improving the identification and validation of likely erroneous applications	----------	Lowered rates of validation due to media publicity, but the unknown results of ED reconsideration of validation make impact forecasting difficult	Lowered corrections due to media publicity, but possibly increased validation edits due to ED reconsideration of validation	Greater mobilization and funds for media access; need for decisions on validation criteria, procedures, and volumes; organizational changes
3. Making the application form itself less error prone	----------	Possibly reduced validation load	Some increases, some decreases in correction and validation edit burden	Need for regulatory changes; otherwise minimal
INSTITUTIONAL COMPONENT				
1. Creating an incentive in the BEOG program for students to complete course work	Greater attention to program regulations	----------	Reduced computation load, otherwise minimal impact	Increased regulatory and equity burden
2. Changing administrative procedures to promote compliance and reduce delays	Loss of horizontal equity, possibly meaning increased use of supplemental applications; certain increased responsibilities	----------	Reduced computation load, otherwise minimal impact	Less seasonality in disbursement and reporting procedures; loss of some fiduciary control; increased reconciliation burden; regulatory changes required

FIGURE 6-1

IMPACTS OF THE VARIOUS CORRECTIVE ACTION THEMES
ON OTHER DELIVERY SYSTEM COMPONENTS

CORRECTIVE ACTION THEMES	DELIVERY SYSTEM COMPONENT: APPLICANT AND APPLICATION	INSTITUTIONS	PROCESSORS	FEDERAL GOVERNMENT
3. Adding new verification requirements for critical BEOG application items	Increased burden on independent students; increased validation and correction burden	----------	Implementing cross-year edits; increased corrections burden	Minimal impact, except in terms of regulatory change and design of cross-year edits
PROCESSORS COMPONENT				
1. Rationalizing internal processor procedures	Minimal impact except as time and effort are saved by this theme	Minimal impact except as time and effort are saved by this theme	----------	Organizational time and effort for specific objective setting and reorganization
2. Improving management decision-making tools	Minimal impact except as time and effort are saved by this theme	Minimal impact except as time and effort are saved by this theme	----------	Organizational time and effort for specific objective setting and reorganization; staff training; equipment purchase
3. Improving the efficiency of communications with students	Minimal impact, except as time and effort are saved by this theme	Minimal impact, except as time and effort are saved by this theme	----------	Organizational time and effort for specific objective setting and reorganization

FIGURE 6-1 (Cont.)

6.1 APPLICANT AND APPLICATION COMPONENT

The three corrective action themes for this component of the delivery system are:

- Asking the applicant to prove need
- Improving the identification and validation of likely erroneous applications
- Making the application form itself less error-prone

6.1.1 Asking the Applicant to Prove Need

The documentation requirements for this theme lead to a greatly increased processor burden but a lessened burden on institutions and Government, once necessary clearances are obtained. Requiring that the applicant not simply appear needy but also provide verification documentation, such as a recent certification of public assistance or an IRS Form 1040, would imply greater burden on the processor component. That greater burden would fall primarily on the cursory edit stage just after mail receipt (checking for whether or not the documentation is provided), the data entry stage (making IRS or public assistance information machine readable), and on the computer edit stage (matching applicant-supplied data and the verification documentation). If the application fails either the new cursory edits or the computer edits, the processor would also need new corrections processing and new correspondence production capability and procedures to obtain the proper information from the applicant. All in all, there would be a significant new burden on processors.

The burden on the institutions and Government would conceivably be lessened, however, by this recommendation. The institutions would find the validation of students less time consuming (assuming no other changes in these procedures). The Government would be able to forego some of its after-the-fact control over error by way of this stricter quality control procedure on the front- end. In fact, instituting this preventive approach would probably cost less overall in time and money terms than instituting equally effective back-end quality assurance techniques such as validation.

6.1.2 Improving the Identification and Validation of Likely Erroneous Applications

This theme implies an increased burden on Federal Government, but overall impacts on institutions and processors are hard to forecast. Publicizing OSFA validation procedures to the public (in the same style as the IRS publicizes its audits) and increasing OSFA responsiveness to institutions' suggestions regarding suspected student applications could both help OSFA's error-control efforts while having only minimal influence on other system components. The Federal Government would necessarily need to devote new attention and funds to student aid publications, media relations, and regional office organization, but the costs of these efforts would be relatively low. In the end, institutional error control could be facilitated and processor correction activities reduced.

What makes the impact of the theme on institutions and Government unclear are the unknown results of ED reconsideration

of validation. Revising the validation criteria, volumes, and procedures to reflect ED's desired point on the Lorenz Curve featured in Figure 3-3 could have major impacts on institutions and applicants, depending on how different ED's new validation volume criteria and procedural policies are from the old.

6.1.3 Making the Application Form Itself Less Error-Prone

Moderately reduced burdens for institutions and processors would result from this theme. Changing the official definition of dependency status to exclude current-year estimates and dropping these estimates as an application item would have a minimal but favorable impact on the workloads in the current delivery system. Processors' editing chores would be eased somewhat, as would the burden on institutions engaged in validating students, but this speculative and unverifiable item has so little impact on the system that its loss would have no major repercussions.

Asking on the form for the names of dependents who will be enrolled in postsecondary education and following the other recommendations presented under this theme would smooth the application process, but their influences on other components of the system would be minimal and in the direction of easing rather than increasing workload burdens.

Of course, for each of the recommendations the Federal Government would need to devote efforts toward the necessary regulatory changes.

6.2 INSTITUTIONAL COMPONENT

The three themes for this delivery system component are:

- Creating an incentive in the BEOG program for students to complete course work
- Changing administrative procedures to promote program compliance and reduce delays
- Adding new verification requirements for critical BEOG application items

6.2.1 Creating an Incentive in the BEOG Program for Students to Complete Course Work

The impact of this theme would mainly put greater regulatory and equity burdens on the Federal Government. Implementing a new credit-requirement policy would have little impact on processors except in potentially reducing the number of applications and awards. For students, some greater attention to program regulations would be required. For the Federal Government, there would be some increase in regulatory burden, and some difficult equity issues with which to contend. In the past, the Government has backed away from this kind of suggestion for precisely these two reasons. On the regulatory side, schools differ tremendously in their grading and curricular formats, so Federal regulations for credits must be responsive to that differentiation. On the equity side, research by a number of social scientists shows clear and strong correlations between postsecondary achievement, postsecondary persistence, and parental income. Some lower-income students still struggle both academically and financially in college, sometimes being forced to drop out of school to support families, or for the same reasons needing to take jobs

that may hurt their academic performance. Any new credit regulation must be sensitive to the fine lines between efficient fraud-and-abuse control, on the one hand, and discouragement of the aspirations of legitimately needy students, on the other.

6.2.2 Changing Administrative Procedures to Promote Program Compliance and Reduce Delays

This theme implies less computation at the processors and less seasonality in Government record-keeping and disbursements, but a greater regulatory and reconciliation burden on the Government and a greater need for student awareness of program details. The broadening of BEOG cost and award categories would potentially lessen the complexities and time involved in Student Eligibility Index calculations at the processors and the disbursement and reporting procedures within the Federal Government, just as it would ease payment and adjustment procedures at institutions. Students would need to be aware of a potential loss in horizontal equity (equal treatment of equals) since differences in family financial status and actual college costs would be washed out in favor of a few fixed categories of awards and costs. Supplemental Application volume might increase a bit as students realize this. But that loss in equity only occurs if we can assume current eligibility formulas are more accurate than the broad categories this proposal advocates. That is a debatable issue, in our opinion.

The idea of a mid-year validation roster would have little effect on students, processors, or the Government, except in

promoting better and less seasonal OSFA record-keeping for decision-making and disbursement purposes. The institutional burdens would of course be increased.

Allowing quicker effective (if not official) SER corrections and greater FAO discretion for awards disbursal would require student approval and Government regulatory changes, as well as increasing institutional workloads, responsibilities, and liabilities. For students, a new degree of personal responsibility and high level of trust of the aid officer might be required. For Government, the loss of a degree of fiduciary control over BEOG funds flows and increased reconcilation burdens would be prices to be paid. The benefits in award timeliness and aid officer counseling of students would probably overcome these costs, however. Impacts on the central processor would be minimal.

6.2.3 Adding New Verification Requirements for Critical BEOG Application Items

This theme implies major increases in the burden on independent students and on processors and some increased burden on the Federal Government. Implementing cross-year edits would pose a sizeable new burden on processors in matching application data across years. Should there be problems in a student's dependency status, new corrections and correspondence procedures would need to be developed. The Government component would be little affected by this recommendation, except as validation regulations might be marginally changed. The institutional burden would increase, as would the burden on independent students needing to locate their parents' IRS 1040s.

The number of SERs sent back to the central processor for corrections and the burden on institutional validation efforts could be increased by validating household size and the number in college, but so could the level of SER accuracy and the precision of reporting for OSFA.

6.3 PROCESSORS COMPONENT

The three themes identified for problem solution in the processor area are:

- Rationalizing internal processor procedures
- Improving management decision-making tools
- Improving the efficiency of management communications with students

6.3.1 Rationalizing Internal Processor Procedures

The recommendations under this theme imply significant new burdens on Government and favorable but minimal impacts on other system components. Serializing BEOG applications at the mail receipt stage and increasing data-transfer security at processors would have little impact on the activities of other system actors only in eliminating the very rare cases of a complete loss of a student's application data or a violation of privacy rights. The need for more precise specification of QC requirements in the central processing contract will, however, require careful OSFA attention and interdepartmental cooperation. Likewise, the recommendation that OSFA monitor more intensively on-site at SDC would require careful OSFA attention to divisions of responsibility and authority at the processor. Finally, the rationalization

of MDE pre-edits would require careful OSFA deliberation and increased regulatory control capability. Otherwise, these aspects of the internal processor rationalization theme would have few impacts on other system components, and to the extent students and institutions would be affected, the result would be marginally decreased work activities.

6.3.2 Improving Management Decision-making Tools

As for the theme just presented the recommendations under this theme significantly increase the burden on the Federal Government and the processor, but not on the student or the institution whose time and effort would be somewhat reduced. ED will need to systematically address the strengths and weaknesses of the reports it receives from the processor, both in terms of format and content, and also will need to go through substantial initial effort for establishing greatly improved in-house analytic capability.

6.3.3 Improving the Efficiency of Communications with Students

As in the two preceding processor themes, the major burden of this processor corrective action theme falls on the Federal Government. It will need to systematically address processor reporting to ED on correspondence activities, the views of students regarding BEOG processing, and the edits and validation criteria for fraud and abuse. Ideally, these OSFA efforts would ease the workload burdens on both students and institutions, while simultaneously improving the control of fraud and abuse.

To achieve these goals, highly coordinated and potentially time-consuming OSFA efforts will be needed.

CHAPTER 7

DECISION MODELS AND ALTERNATIVES FOR STRUCTURAL REDESIGN OF THE STUDENT AID DELIVERY SYSTEM

This chapter has two components. The first, covered in Section 7.1, addresses the ideal approach for restructuring student aid delivery. The second, covered in Sections 7.2 through 7.4, follows a more indirect tack, presenting our preliminary thinking on how the different components of Federal student aid delivery might be radically altered to meet certain OSFA objectives. The chapter considers the entire range of OSFA student aid programs, not the Basic Grant program alone, since undertaking radical change of the BEOG program alone, without assuming parallel radical effects on other aid programs, would be clearly shortsighted.

7.1 A MODEL FOR GENERATING, COMPARING, AND EVALUATING STRUCTURAL CHANGES IN STUDENT AID DELIVERY

The order in which questions have been raised thus far in this study is in many regards the opposite of the order in which policy decisions are likely to be made concerning long term, structural changes in student aid delivery. Whereas this study moves from consideration of specific errors through identification of corrective actions, and ultimately to an evaluation of the inevitable residual error and the need for major system changes, policymaking is apt to follow a different course beginning with the broad policy questions and proceeding to the identification of an ideal class of systems, the parameters of which

would be set by program managers on a continuing basis in the field. Policymakers are thus likely to be less interested in specific errors and their minimization and more interested in the questions of whether there is agreement on program intent, whether that intent is accurately reflected in program structure, and whether errors are controlled sufficiently well so as not to interfere with the achievement of program objectives.

In the strictest sense, questions about program intent and its achievement are more properly the subject of an evaluation study rather than a quality control study. Notwithstanding this fact, there are two reasons why such questions must be addressed in this effort. First, in order to evaluate the importance of specific errors, the appropriateness of "mechanical" corrective actions, and the acceptability of residual error, one must reference what is believed to be the purpose of the program.[1] One can imagine, for example, a situation in which program managers seek to minimize a relatively unimportant error in an inappropriate costly manner with large undesirable effects. While in most cases extremely ill-advised corrective actions will be rejected out of hand, there are a number of instances where the marginal reduction or elimination of error inevitably requires actions that alter the shape and intent of the program. Second, to the

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[1]Costs and benefits for a given action cannot be tallied independently of program intent since each action implies nonquantifiable costs and benefits that policymakers must somehow rank prior to a policy decision. For example, does an extra hour of student time imply a cost that is smaller than, greater than, or the same as an extra hour of an aid officer's time?

extent one considers major structural changes in program delivery, the probability that program intent will be altered is so great that it must be dealt with explicitly.

Thus there are points in both approaches to the questions--the more familiar deductive approach of the policymaker vs. the inductive approach of this study--at which program intent becomes a central issue. Indeed, to the extent that specifying and controlling for program intent is a feature of each approach, they become equivalent. That is, the process by which one would discover the best delivery system proceeding deductively from a knowledge of program intent is reversible in that an inductive analysis of current program error and an identification of appropriate corrective actions in light of program intent will lead to the same conclusions.

7.1.1 Defining Program Intent

While it is difficult to define precisely what is meant by program intent, it is possible to construct a framework that organizes and ranks considerations and program characteristics. Thus, one's attitude about the intent of the student aid programs might be described by a vector of weighted responses to several questions about the importance of various program features and effects. Consider, for example, Figure 7-1. This simple table lists various program attributes and presents two hypothetical sets of weights that sum to 100.

While the hypothetical specifications oversimplify the issue, one can imagine the differences in system design that

	A	B
Educational Effects (Behavioral Effects)	30	15
Simplicity (Number of Forms, Data Elements, etc.)	30	5
Equity (Sensitivity to Student/Family Differences)	5	45
Integrity (Minimum Fraud, Abuse)	10	5
Governance Neutrality (States Rights, Institutional Autonomy)	5	25
Cost of Delivery (Share of Appropriation)	20	5
	100	100

FIGURE 7-1

TWO HYPOTHETICAL SPECIFICATIONS OF PROGRAM INTENT

might result from the two distributions of weights. Systems that correspond to the A weights could in general have much more streamlined lower-cost delivery systems than systems corresponding to the B weights. For example, forms in A would be shorter due to less need for attention to the peculiarities of individual family finances or to the situations in specific states or institutions.

This brief example suggests that a systematic approach to uncovering underlying differences in program intent has major implications for identifying the best way to deliver student aid. A complete, systematic definition of program intent would require identifying a fully developed scheme that could accurately characterize (and help mold) policymakers' attitudes toward program features. Indeed, there are techniques that can be used with such a scheme to build a consensus among policymakers and thus determine that characterization of program intent upon which system modification and design should proceed.

7.1.2 Relating Program Intent to Necessary System Components

In order to translate a given characterization of program intent into the class of systems that best fulfill that intent, it is necessary to relate levels of the weight associated with each feature to differences in necessary system conditions (components). For example, a weight of 45 given to equity in the example above may translate into a rather long application form with a large number of data elements. If the level of weight for each characteristic can be associated continuously to the number

and complexity of system components, then for any characterization of program intent (described by a particular set of weights) one can comprehensively describe in a general way the components that make up the inevitable system design.

In the example depicted in Figure 7-1, one might utilize a given set of rules that relate the level of a weight to the number and complexity of system components, resulting in the following system differences:

	A	B
Edits	Few	Many
Need Analysis Model	Simple	Complex
Validation	Simple	Complex
Corrections	Minimal	Significant
Reconciliation	Minimal	Significant

FIGURE 7-2

SYSTEM DIFFERENCES UNDER TWO SPECIFICATIONS
OF PROGRAM INTENT

The set of rules or algorithms that relate level of weight to necessary system components are of prime importance. They should be developed individually with an eye toward building a model that, to the extent possible, continuously relates program intent to system design. The resulting model should be reversible in that a particular system described by its components should be

traceable to the set(s) of weights (program intent) with which it is consistent.

7.1.3 Applications of the Model to QC Issues: Generating, Comparing, and Evaluating Alternative Systems and System Components

There are several ways that such a model relates to quality control issues:

- First, it can be used to identify and measure program intent as represented by the structure of the delivery system and thus help to evaluate the importance of error, the appropriateness of corrective actions, and the gravity of residual error.
- It also can be used as a way of showing how intent and error have changed over the history of the program.
- It can facilitate distinguishing among corrective actions as to their effects on program intent.
- It can be used to identify alternative systems (components) that appear to change intent in small and/or desirable ways.
- It can be used in reverse, as an aid in measuring the differential incidence of substituting a new system (component) for the current one.
- It can be used to generate classes of systems that correspond to significantly different characterizations of program intent.
- It can be used to build consensus on a manageably small number of system (component) modifications, thereby facilitating breakthroughs.
- It can be used to set standards of performance in an ongoing QC System.

7.1.4 The Components of the Model

The model would consist of six components:

- A framework for defining intent by distributing weights across program features
  - This should be a two-step process whereby one would allocate, say, 30 points to equity and then within

that classification distribute the 30 points over aspects of equity that had significantly different system (component) implications.

- A set of rules that related the number and complexity of system components to the level of importance attached to each program feature
- A set of rules for aggregating vectors of system components across features to produce the final system, including a capacity to identify and resolve mutually contradictory system components
- A capacity to compare two or more specifications of program intent and their implications for system design
- A capacity to identify the set(s) of weights consistent with a given program structure
- An interactive capacity to facilitate consensus building

7.1.5 Potential Configurations of System Components

Although the above discussion suggests strongly that one does not begin system redesign until some basic policy considerations are specified (e.g., the relative importance of simplicity and aid officer autonomy), it is instructive for policymaking to begin as early as possible to highlight the different shapes a new delivery system might take. In that light, we outline in the next three sections some preliminary ideas for changes in the application, institutional, and processor components. We do not attempt to put these component parts together into a whole system. Instead, we focus on elaborating some of the options potentially confronting policymakers in the components. Their acceptance by OSFA and their combination into an integrated system will depend first on feasibility and cost-benefit analysis and second on their impacts on the objectives of the program.

7.2 THE APPLICATION PROCESS

7.2.1 The Problems

In Chapter 3 we stressed the high degree of error in the current application process and identified five major factors we felt to be responsible:

- The ability of an applicant to distort his or her financial data (intentionally or otherwise) and not get checked by the system
- The previsions for using estimated data
- The imprecision with which certain data are defined
- The inappropriateness of particular time frames
- The apparent lack of follow-up by the Department of Education on suspected erroneous applications

To eliminate these problems, we proposed recommendations revolving around three themes:

- Asking the applicant to prove need
- Improving the identification and validation of likely erroneous applications
- Making the application form itself less error-prone

The recommendations of Chapter 3 were constrained by the assumption that the current needs analysis system would continue to exist. In this chapter we relax this constraint and give examples of three alternative application procedures:

- The "micro" application procedure
- The short form/long form application procedure
- The dual needs analysis procedure

Further research into these examples and other procedures to simplify the delivery of student aid will be conducted in Stage Two of this project.

7.2.2 The "Micro" Application Procedure

Objectives Enhanced

- Efficiency
- Verifiable data
- Cost effectiveness
- Single needs analysis
- Simplicity

Objective Lessened

- Family contribution precision

Procedure

The needs analysis application would contain only hard, verifiable data and be accompanied with validating documents. One example of such an application is shown in Figure 7-3. Clearly, this procedure could be applied to any subset of the existing data items. This subset was chosen because the data can be readily verified and appear to generally describe family financial status.

We emphasize that this example is the most extreme approach to controlling error through form simplification. Other, less extreme, approaches to reducing the number of data items could be structured in a similar fashion. For example, total family income would be a better measure of family wealth than adjusted gross income. However, the former would require more extensive

1980-81

APPLICATION FORM FOR FEDERAL FINANCIAL ASSISTANCE

1. Student's Name _____
   Last First MI

2. Student's Permanent Mailing Address _____
   Number and Street Apt.
   _____
   City State Zipcode

3. Student's Social Security Number _____

4. Was the Student Claimed as an Exemption on His/Her Parents' U.S. Income Tax Return for 1979 (Form 1040, line 7 or 1040A, line 6)?
   _____ _____ _____
   YES NO DID NOT FILE

5. Did the Family (Student) Receive Public Assistance Payments in 1979? (If "yes", you have completed this form) ____ ____
   Yes No

6.* 1979 Adjusted Gross Income (Form 1040, line 31 or 1040A line 11): $_____

7.* 1979 Total Number of Exemptions Claimed (Form 1040, line 7, or 1040A line 6): _____

*If you checked "yes" to question 4, questions 6 and 7 refer to the parents' tax return. If you checked "no" to question 4, questions 6 and 7 refer to the student's tax return.

FIGURE 7-3

SAMPLE "MICRO" APPLICATION FORM

validation than the latter to achieve the same control of data integrity.

In this example, applicants would submit:

- The application
- Either an IRS 1040 (1040A) or a certification of public assistance

It is conceivable that in the future an applicant would submit no form. A checkoff box on the applicant's tax return would automatically trigger an application.

Applicants on public assistance would receive an expected family contribution of zero and be eligible for maximum awards. If the applicant were not on public assistance, then three items from the IRS 1040 (1040A) would be used in determining "need":

- Adjusted Gross Income [AGI]
- Number of exemptions
- Whether or not the applicant was claimed as an exemption

The determination of "need" can be performed by assignment of an Expected Family Contribution [EFC] and/or assignment of a BEOG award level. That is, for each cell defined by AGI, number of exemptions, and dependency status, we could assign an EFC and a BEOG award. The advantage of assigning a BEOG award directly is that the applicant could, at the time of application, easily determine his or her grant. If, in addition, an EFC were assigned, the financial aid administrator could then package other forms of aid on the basis of Expected Family Contribution.

The selection of appropriate EFCs and awards for each cell can be achieved by one of two methods: formula calculation or subjective assessment. Either approach could be calibrated for budgetary constraints. The formula calculation approach would have EFC as a function of AGI, number of exemptions, and family size much as it is now. The difference between what is proposed and what is currently in place is the use of far fewer items in the formula and, hence less discrimination of need among the applicants. Awards could be determined from EFC as they are now.

A subjective assessment of BEOG award amounts would be a radical shift from current procedures. One could start this assessment by assigning awards equal to the average award by cell from a prior year. For example, if in the prior year dependent applicants from a family of 4 with AGIs between $6,000 and $12,000 had an average award of $1,000, this same award size could be used as a starting point for the next year. Adjustments could be made for inflation (e.g., increase the AGI figures that define the bounds of each cell), cost of college (e.g., limit awards to an allowable percentage of cost), and enrollment status. If the resulting awards seemed "reasonable," one could then estimate the program cost and, if necessary, adjust the award categories individually and subjectively to maintain a proposed budget. If the resulting awards appeared "unreasonable," then individual award categories could again be adjusted as desired. An example of a payment schedule is shown in Figure 7-4. A similar table shell could be constructed for EFC.

AWARD SCHEDULE FOR APPLICANTS CHECKING
"YES" TO QUESTION 4

Response to Question 6	Response to Question 7					
	2	3	4	5	6	7 or more
Less than $6,000	$1,750	$1,750	$1,750	$1,750	$1,750	$1,750
$ 6,000 - $ 7,999	1,540	1,650	1,750	1,750	1,750	1,750
$ 8,000 - $ 9,999	1,330	1,440	1,610	1,750	1,750	1,750
$10,000 - $11,999	1,120	1,230	1,400	1,550	1,670	1,750
$12,000 - $13,999	910	1,070	1,190	1,340	1,460	1,580
$14,000 - $15,999	700	810	980	1,130	1,250	1,370
$16,000 - $17,999	490	600	770	920	1,040	1,160
$18,000 - $19,999	280	390	560	710	830	950
$20,000 - $21,999	0	180	350	500	620	740
$22,000 - $23,999	0	0	0	290	410	530
$24,000 - $25,999	0	0	0	0	200	320
$26,000 or more	0	0	0	0	0	0

Notes: (1) In no case will your award exceed one-half the cost of attendance at your school.

(2) Students enrolled three-quarter and half time will have their awards reduced accordingly.

(3) Award = $1,750 - .105(AGI - Family Size Offset), where cell values are based on the lowest income in the income range.

FIGURE 7-4

SAMPLE PAYMENT SCHEDULE FOR DEPENDENT STUDENTS

Assumptions

- Single need analysis is an acceptable basis of the system.
- Use only data that are easily verifiable at the time of application.
- These minimal data elements will give sufficient discrimination of "wealth" of applicant to satisfy ED and institutions.
- Post-award validation through such tactics as an IRS data match could be used to monitor the quality of the application data.

Benefits

- Data verification at time of application, no need for validation
- Extremely simple for applicants
- Very rapid processing
- Elimination of nonintentional error
- Applicant look-up of expected family contribution and award from a table

Disadvantages

- Possibly insufficient discrimination of "wealth" of applicant to satisfy ED and institutions
- Failure to take into account special or unusual applicant expenses or sources of income

7.2.3 The Short Form/Long Form Application Procedure

Objectives Enhanced

- Efficiency
- Cost effectiveness

Objective Lessened

- Simplicity

Procedure

The applicant would be given the option of using a "micro" form (see Section 7.2.2) or a standard needs analysis form depending upon which he or she felt would more closely reflect his or her financial situation. This is analagous to allowing taxpayers to either itemize deductions or take a standard deduction depending upon which method was most advantageous to the filer.

Assumptions

- "Micro" form may disqualify some needy applicants
- "Micro" form will be used by many of the applicants

Benefits

- Benefits listed for micro form above
- Allowance for individuals with unusual expenses to have them taken into account

Disadvantages

- Long-form applications being as error prone as they are today
- Confusing to some applicants
- For those who file "micro" form, possibly insufficient discrimination of "wealth" to satisfy ED and institutions
- Dual needs analysis systems

7.2.4 The Dual Needs Analysis Procedure

Objectives Enhanced

- Efficiency
- Cost effectiveness
- Preserving FAO autonomy

Objective Lessened

- Simplicity

Procedure

The applicant would file the "micro" form for Basic Grants (see Section 7.2.2) and campus aid officers would have the option of using that information for awarding other aid or relying on a standard needs analysis form for other financial assistance. This would permit the benefits of the "micro" form to be applicable to Basic Grants but would permit more discriminating distribution of other assistance through the use of a more precise measure of need generated by the standard needs analysis form.

This idea has attracted some recent attention within ED because of its straightforward approach to controlling error and preserving the discretion of FAOs in awarding aid. In many ways, the idea is a compromise between the radical approach of a micro-only Federal application process and the current dual system with two long forms meeting distinct delivery system needs. As with any approach to structural redesign, one can raise a number of significant, concrete questions about implementation:

- What will be the effects on level and distribution of funds?
- What method will be used for determining the payment schedule?
- Will the long form be kept in the short term?
- Will there be a longer Federal formula available for Campus-based aid?

- What is the schedule for implementation?
- What are the methods and costs of appropriately modifying the BEOG processor contract?
- Will BEOG data still be validated and how?
- What is Quality Control under such a system?
- Is a single form for all Federal need-based aid still a long-term goal?
- How will processor verification of IRS, welfare, and family size data work?
- Are data matches for IRS a permissible option for applicants?
- What will be the effects on the internal organization of ED (validation branch, policy branch, etc.)?
- Will added flexibility come to Campus-based aid awards, to allow for special circumstances?
- What is ED's objective function in structural change?
- What happens to the MDE system, which does not verify income or welfare data at entry for BEOG (i.e., Will all students have to send an application to BEOG central processor, or do MDEs start collecting IRS and welfare forms)?
- If Campus-based awards are to be validated, how is the system going to handle the fact that some students will have only BEOG short-formula data, some will have only ACT or CSS data, and some might even have Federal long-formula data?
- What is the best approach for getting the idea accepted?
- How does the idea relate to the mechanical corrective action recommendations in earlier chapters?
- How does the idea relate to "networking" proposals for Federal aid processing? (See section 7.4.3.)

These issues form the basis of the eventual ED decision on adopting such a system. The assumptions, benefits, and disadvantages that would accompany an eventual adoption of the dual system are summarized below.

Assumptions

- Financial assistance other than Basic Grants can be used to fine-tune the aid package.
- The minimal data elements on the "micro" form will give sufficient discrimination of "wealth" for Basic Grant purposes.

Benefits

- Same benefits listed for "micro" application procedures above
- Other aid allotted to make up for shortcomings in Basic Grant needs analysis

Disadvantages

- Long-form applications being as error prone as they are today
- Each applicant being assigned an explicit or implicit expected family contribution for Basic Grants that may not be the same as the EFC for other aid

7.3 BEOG AWARD CALCULATION, DISBURSEMENT, AND RECONCILIATION PROCESS

7.3.1 The Problems

In Chapter 4 we discussed several problems related to the role institutions play in the BEOG process. The problems identified were:

- The substantial amount of change in enrollment status among BEOG recipients
- The discrepancies between actual disbursement made and expected disbursements calculated using SER cost of attendance and current enrollment data

- The burden on institutions of having to collect and sign three copies of every SER
- The cumbersome and slow SER corrections process
- Student switch from dependent to independent status in consecutive years without having to show proof of this new status

To eliminate or at least ease these problems, we proposed recommendations revolving around three themes:

- Creating an incentive in the BEOG program for students to complete course work
- Changing administrative procedures to promote program compliance and reduce delays
- Adding new verification requirements for critical BEOG application items

This section of Chapter 7 focuses on major redesign of components or steps within the BEOG delivery cycle that involve student submission of SERs to institutions, corrections to SERs, award calculations, disbursement, Federal allocation of BEOG funds to institutions, and institutional-OSFA reporting activities. In short, redesign concepts presented here relate to the midsection of the BEOG delivery cycle or that segment which takes the student from eligibility notification to receipt of BEOG disbursements.

The overall redesign goals for this part of the system are:

- Accurate calculation of awards
- Timely disbursement to students
- Improved use of the SER
- Closer tracking of institutional BEOG expenditures
- Current, more accurate data for program projections

The system redesign ideas presented here are targeted for use by the full range of institutions currently participating in the Basic Grant program, with totally manual to fully automated operating systems. Principal features of the redesign are the following:

- Redesign of the SER incorporating a machine readable attachment
- New procedures for institutional use of the SER
- Development of a central BEOG disbursement center referred to as the BEOG Central Comptroller [BCC] in this report

7.3.2 Redesign of the SER

Objectives Enhanced

- Easier handling facilitating correction of SER data
- All students verifying accuracy of SER data by signature
- No carbon needed

Objective Lessened:

- Fewer corrections necessary to SERs

Procedure

The SER is a two-copy form containing all applicant data with an attached optical scanner card [OSC] which contains:

- Student identifier data
- The SEI
- Spaces for institutions to enter Cost of Attendance [COA] code and first-term enrollment status date of enrollment

The two-copy SER form lists applicant data in a column with an adjacent column of blanks for corrections. An example is

1981-82 BEOG STUDENT ELIGIBILITY REPORT

1. COMMENTS - IMPORTANT PLEASE READ

2. CHECK ACCURACY OF ALL INFORMATION BELOW AND MAKE ANY CHANGES NEEDED

INFORMATION TO CHECK	CORRECTIONS
A. STUDENT INFORMATION	
B. STUDENT'S STATUS	
C. HOUSEHOLD INFORMATION	
D. INCOME AND EXPENSE INFORMATION	
E. ASSET INFORMATION	
F. STUDENT'S EXPECTED INCOME 1981/82	

CERTIFICATION--ALL STUDENTS MUST SIGN
All the information on this Student Eligibility Report is true and complete to the best of my knowledge. If asked, I agree to give proof that this information is correct. I understand that this proof may include a copy of my U.S. or State income tax return.

_____
Student's Signature

_____ _____
Parent's Signature (if corrections made for a dependent student) Date

FIGURE 7-5

PROPOSED NEW SER DESIGN

shown in Figure 7-5. The applicant is instructed in bold letters to check accuracy of data and make all changes necessary. Before submitting a final SER to an institution he or she must sign the SER certifying that all data are correct.

Upon receipt of the SER the student checks accuracy of data, calculates his or her own award, and submits one copy of the SER and the optical scanner card to the institution he or she has definitely decided to attend. The hard copy SER serves as a notification document which the institution keeps on file as a record and for validation purposes. The OSC is used as the disbursement document and serves the same purpose as Section 3 of the current SER.

Assumptions

- Community accepts simplified award calculation and payment schedule.
- ED accepts a machine readable card instead of the hard copy SER from institutions.

Benefits

- SER redesign promoting correction of data
- Student not having to submit SER to institution for award calculation
- Student signature certifying accuracy of data

Disadvantage

- Increase in level of student corrections to SERs unless changes to the BEOG application reduce initial error

Alternative

- Students could send their SERs to the processor or, in this case, the BCC designating the institution they plan to attend, the BCC in turn would build a roster to be sent to the institutions.

7.3.3 New Procedures for Institutions

Objectives Enhanced

- Efficient use of SER
- Timeliness enhanced by central submission of SERs

Objective Lessened

- Institutions scheduled award calculations not shown on SER

Procedure

Institutions collect SERs from students but do not return one copy to student and do not enter any institutional data on the SER or OSC until enrollment. After fall enrollment institutions:

- Calculate scheduled awards.
- Complete OSCs with:
  - Cost of attendance data
  - First term enrollment status
  - Date of enrollment
- Complete a one-page report to accompany OSCs with:
  - Institutional data currently asked for on the 10/31 Progress Report
  - Breakdown of COA budgets used
  - Number of OSCs submitted with report
  - Financial Aid Officer and Fiscal Officer signature
- Submit OSCs and one-page report to the BEOG Central Comptroller soon after enrollment or by September 30; maintain SER hard copies on file.

Assumptions

- ED will be satisfied with one FAO and fiscal officer signature in place of the FAO signature on every SER.

- Cost of attendance and enrollment data are all ED needs to calculate scheduled awards and expected disbursements.

Benefits

- Easier, more uniform handling of SER by institutions
- Elimination of FAO signature requirement on every SER
- Institutions allowed to enter less data on SER

Disadvantages

- Institutions still having to collect and enter data on SERs
- Paper transfers by mail still being a part of the system for institutions not equipped for tape exchange

7.3.4 BEOG Central Comptroller

Objectives Enhanced

- Greater ED control
- Faster tracking of institutional transactions
- Faster follow-up of errors

Objective Lessened

- Reduction of paper work for ED and for institutions

Procedure

The BEOG Central Comptroller would hold responsibility for central processing of the SER (not the application) and scheduled award calculations. In addition it would:

- Maintain the BEOG Universe File
- Closely monitor BEOG disbursements and expenditures
- Assume current PIMS functions
- Release and control funds to institutions

Upon fall receipt of OSCs from institutions, the BCC would:

- Run OSCs through a computer.
- Produce automatically a first disbursement roster to be sent to institutions with:
  - Student name, Social Security Number, and SEI
  - Calculated first-term disbursement
  - COA code
  - Spaces for institution entry of corrections
- Electronically transmit updated authorization ceiling to DFAFS.
- Check that the OSC submitted is the latest "valid" OSC for each student and alert institutions via the roster if not.
- Run a continuous system-wide check to catch duplicate OSCs and duplicate Social Security Numbers.
- Send reconciliation rosters to institutions within two to three weeks of OSC submission.

In turn, institutions would:

- Complete rosters with:
  - Actual first-term enrollment status for each student (either checks correctness of printed data or enters changes)
  - Actual first disbursement for each student
  - Overpayment and repayment data (optional)
  - Changes to COA codes
  - Expected second-term enrollment status
- Have both FAO and Fiscal Officer sign roster.
- Return roster to BCC within one month.
- Include new OSCs received since first report.

Upon return of the rosters by institutions, the BCC would:

- Edit and reconcile award/disbursement data.
- Maintain accounting trail and fund control.
- Electronically transmit new authorization ceilings to DFAFS.
- Produce a second disbursement roster to be sent to institutions.
- Match institutional drawdown of funds against reported actual disbursements and follow up major discrepancies.

Assumptions

- ED wants greater control over BEOG disbursements.
- More accurate and current disbursement data will lead to better forecasting of expenditures and funding needs.

Benefits

- Timely institutional checking of enrollment status
- Speeded up institutional self-corrections and repayments to the BEOG account
- Up-to-date BEOG expenditure data for ED
- Greater quality control of award calculation and disbursement error
- Closer follow-up capability on institutional expenditures
- Elimination of current Progress Report requirements and the inherent elements of guesswork
- Completely automated production of BEOG rosters through machine readable cards; minimal or no key punching necessary
- No need for monthly applicant roster (tape exchange schools could generate a tape by using the OSCs)
- Receipt and submission of roster by tape at automated schools

Disadvantages

- More transfer of data by mail
- More efficient paperwork, but no real reduction

7.4 PROCESSING

7.4.1 The Problems

In Chapters 2 and 5 we stated our belief that processing is not a critical locus of Basic Grant error. We still were able to identify six minor or potential problem areas where improvements could be made:

- Delays in the receipt of an SER
- Imperfect control of production quality
- Duplication of effort
- Excessive costs
- Inadequate control of applicant error, fraud, and abuse
- Inadequate reporting for management decision making

We propose three themes to address these problems:

- Rationalizing internal processor procedures
- Improving management decision making tools
- Improving the efficiency of communications with students

Since this chapter is not limited to marginal changes to the existing processing system, we can now approach the processor domain from a more open, optimizing perspective. In this vein, we propose three alternative processing procedures:

- Total centralization and integration of Federal student aid processing

- Remote entry capability for Federal student aid processing
- Combined Federal transfer payment application processing

These procedures would each be new, but they are by no means mutually exclusive or inclusive of all potential processing system configurations. Instead, they may be seen as respectively representing three critical dimensions on which processing might change: degree of centralization and integration with other Title IV student aid programs, extent of user data entry capability, and degree of integration with and dependence upon other tax, need analysis, and eligibility processing in the Federal Government (e.g., processing for Food Stamps and IRS). In each case, the alternative to present practices is presented. Because they represent the three dimensions, the approaches here are more prospective new components of any single processing system than they are new systems in and of themselves.

7.4.2 Total Centralization and Integration of Federal Student Aid Processing

Objectives Enhanced

- Cost control
- Elimination of duplication of effort
- Error control
- Services
- Production control
- Reporting

Objectives Lessened

- Form simplification
- Risk avoidance
- Reliability/availability
- Privacy
- Smooth relations with the private sector

Procedures

The proposal would end the current dual framework of central processing of BEOG application forms and MDE-generated BEOG application data, on the one hand, and private processing of Campus-based aid applications, on the other. Applicants would encounter only one application form and process. That process would produce SEIs for Basic Grants and parental contribution estimates for guiding FAOs in awarding Campus-based aid. One processor would handle all cursory edits, data entry, machine edits, processing, correspondence, phone queries, corrections, paper output, process reporting, mail receipt and shipment, and data storage. The Government would contract with a private organization for this processing.

Assumptions

- Need-based aid is an acceptable basis of the system.
- There is organizational support in ED for such an arrangement.
- There is no private sector veto on the idea.
- There is adequate compatibility of processing requirements among the various forms of Federal aid.

Benefits

- Greater OSFA control of costs, errors, production
- Less duplication of effort
- Greater service integration and better provision of services
- Improved reporting for management decision making on Federal student aid

Disadvantages

- Alienating the private sector (e.g., the service agencies, such as ACT and CSS)
- Loss of private sector skills, experience, and capabilities
- Risk of over-reliance on a single system component (reliability and availability could suffer)
- Potential loss of privacy for students
- More complex forms needed to handle all needs
- Potential loss of forms compatibility with the needs of certain states and institutions

7.4.3 Remote-Entry Capability for Federal Student Aid Processing

Objectives Enhanced

- Reliability/availability
- Communications
- Timeliness
- User satisfaction
- Assurance of entitlement
- Security

Objectives Lessened

- Cost control
- Production control
- Risk avoidance
- Simplicity of processing configuration

Procedures

There are a number of ways remote-entry capability for Federal student aid could work. Recent proposals have included a tiered "networking" system based on the processing needs and capabilities of schools of different sizes, "credit-card" systems for students, and regional processing systems with mini-computers spread into area institutions. Each of these ideas is based in perceptions that current processing is duplicative, time consuming, impersonal to students, unresponsive to the skills of aid officers, and vulnerable to fraud and privacy breaches through its outmoded reliance on paper-based processing, reporting, and fund flows. The proposal to allow FAOs to enter students' financial data and data corrections from terminals on campus, to be sent to a central processor somewhere using certain security (e.g., keyword) procedures, addresses these problems. The new, more intimate involvement of the aid officer with processing and with the student in such a system ideally would work to assure fewer application and correction errors, quicker turnaround via electronic data transfer, and better data security. The central processor would still produce SEIs and SERs, in either electronic

or hardcopy form (or both), but some of the burdens of the corrections process would be reduced.

Assumptions

- Aid officers are willing to cooperate.
- There is national availability of technology and teleprocessing capacity to operate such a system.

Benefits

- Enhanced reliability and availability of process via extensive input storage, input, CPU, and output capability
- Smoother student-processor-institutions-Government communications lines
- Increased use of aid officers' skills in processing promoting accuracy and control of fraud and abuse
- Increased use of aid officer counseling with disadvantaged students for data accuracy, thereby promoting entitlement
- More timely processing, allowing institutions' earlier packaging of awards, validation, budgeting, and reporting
- Increased data security

Disadvantages

- Greatly increased costs for user training, hardware and software acquisition, and processing operations
- Loss of control over quality of data entry and reporting
- Risk of resistance, sloppiness, and spot system failures in organizations over which the Federal Government currently has no clear authority
- Increased complexity of processing system for students, FAOs, central processor, and Government

7.4.4 Combined Federal Transfer Payment Application Processing

Objectives Enhanced

- Cost control
- Error control
- Elimination of duplication of effort across transfer programs
- Utilization of expertise in other Federal agencies
- Control of fraud and abuse

Objectives Lessened

- Sensitivity to needs of states and institutions
- ED control
- Higher education community involvement in aid
- Privacy

Procedures

The argument for this proposal goes as follows: If centralization of all Federal student aid processing is good, is not centralization of all Federal needs analysis, eligibility, and taxation processing even better? The application forms and procedures for various kinds of Federal aid (e.g., AFDC, food stamps) have certain similarities in the information they seek, verify, process, and produce. In addition, the populations using these aid programs overlap. For example, a high percentage of BEOG applicants come from lower income families which also receive some other form of Federal assistance. Combining the forms into a "Standard Federal Assistance Application" for all transfer payments to individuals would allow less program

overlap, less applicant effort, and greater utilization of dispersed Federal expertise. In addition, this proposal takes the idea of including IRS 1040s in the application one step further by including the IRS itself in the system, a move that could decrease applicant effort and better control fraud and abuse.

Assumptions

- Need-based aid is an acceptable basis for BEOG awards.
- There is organizational support in ED and other agencies for such an arrangement.
- There is no private sector veto on the idea.
- There is adequate compatibility of processing requirements among Federal agencies.
- Legal clearances can be obtained.

Benefits

- Integration of Federal data-gathering programs and expertise
- Greater control of processing costs via centralization
- Better control of fraud and abuse via linkages to IRS and other agencies
- Less applicant and processor duplication of effort across transfer programs

Disadvantages

- Loss of citizen privacy to a centralized Federal financial data base
- Increased dependency of aid programs on a system also meeting other needs
- Decreased sensitivity to data needs of states and institutions

- Loss of ED control over production procedures and performance
- Decreased sensitivity to special needs of postsecondary students as compared to other Federal aid applicants
- Potential loss of distinction between eligibility and need calculations